2006-2007 ANNUAL REPORT

IMAGINE THE POSSIBILITIES.

PROMOTING. INNOVATING. CREATING.

Investissement Québec

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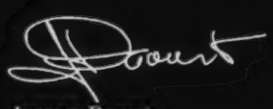
STATEMENT BY THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I am responsible for the information contained in this annual report. This responsibility pertains to the reliability of data and of related controls.

The results and data disclosed in Investissement Québec's 2006-2007 annual report:

- Faithfully describe the Corporation's mission, mandates and values;
- Present the Corporation's objectives, indicators and results;
- Present accurate and reliable data.

I declare that the data contained in this annual report and the controls over such data are reliable and that they reflect the situation as at March 31, 2007.

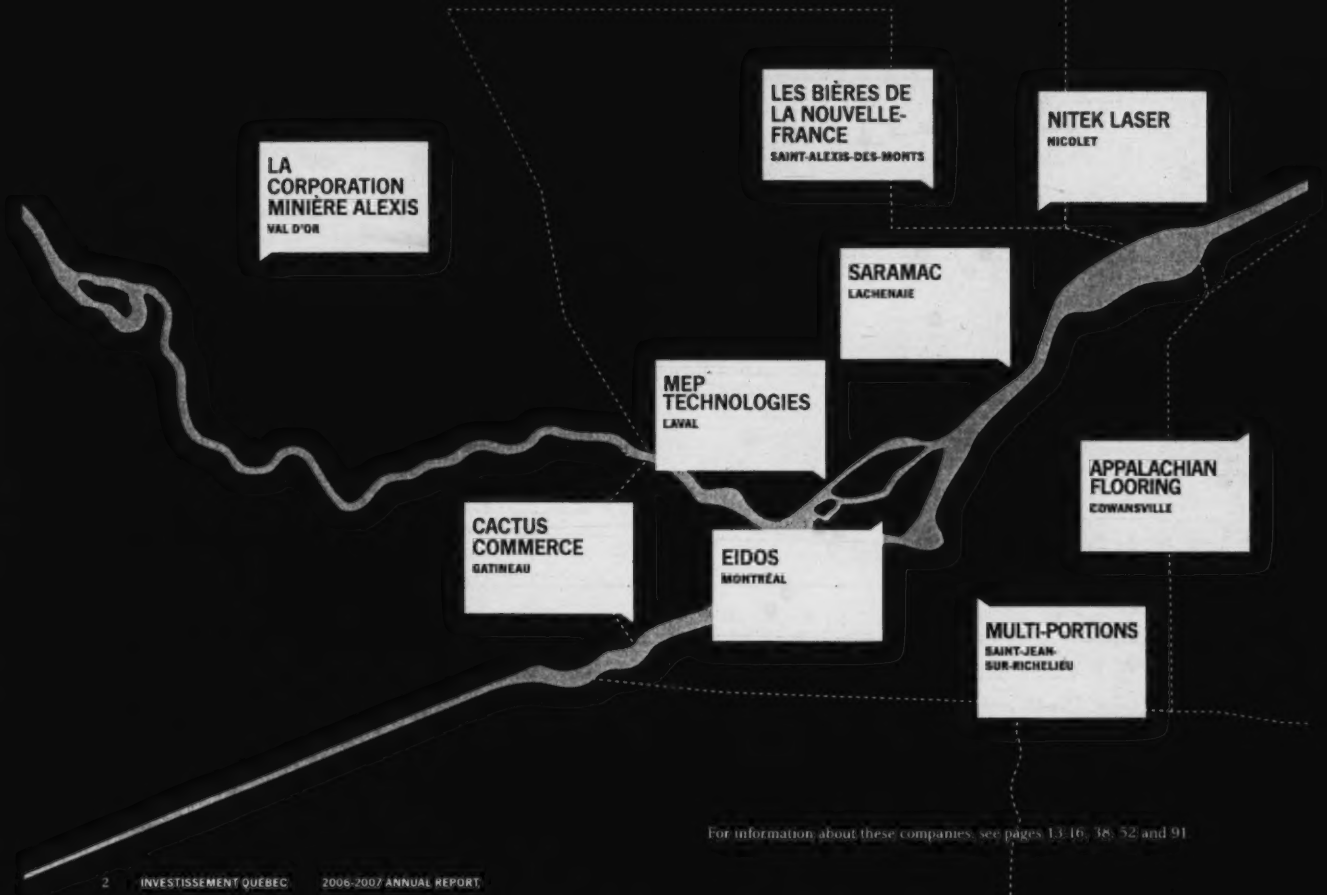


Jacques Daoust
President and Chief Executive Officer

Québec City, May 29, 2007

INNOVATING. CREATING.

We've gone beyond our objectives. Improved our service. Satisfied our clients. Targeted our actions. Broadened our mission. To enhance the growth of national and international businesses in Québec.



For information about these companies, see pages 13, 16, 38, 52 and 91

FÉDÉRATION DES COOPÉRATIVES DU NOUVEAU-QUÉBEC
NORD-DU-QUÉBEC
PRODUITS GILBERT
ROBERVAL
LEPAGE MILLWORK
RIVIÈRE-DU-LOUP
BOULANGERIE RÉGIONALE DES ÎLES
ÎLES-DE-LA-MADELEINE
SOURIS MINI
QUÉBEC CITY
LA RESSOURCERIE DE LÉVIS
LÉVIS
CAMOPLAST
SHERBROOKE

CORPORATE PROFILE

OUR MISSION

Investissement Québec's mission is to promote the growth of investment in Québec and thereby contribute to economic development and job creation.

OUR ROLE

- To centralize and consolidate government initiatives to seek out, promote and support investment, and become the preferred channel for businesses.
- To foster domestic investment and attract investors from outside Québec. To promote Québec as a prime location for investment. To provide appropriate front-line services to effectively guide investors in their dealings with the government and offer them financial and technical support, directly or through our subsidiaries.
- To participate in the growth of businesses by facilitating research and development and export activities.
- To retain current investment by providing financial and technical support, directly or through our subsidiaries, to businesses in Québec that stand out for their drive or potential.

OUR VALUES

- Respect for our clients and staff, and honouring our commitments
- Integrity, ethical conduct and thoroughness
- Collaboration and diligence

OUR EXPERTISE

- We offer:
  - Financial products that complement the products of financial institutions;
  - Economic development tools and tax measures;
  - Financial expertise to government partners;
  - Consulting services to clients.
- We promote foreign investment in Québec.
- We are present throughout Québec, and abroad.
- We act locally, nationally and internationally.

OUR CLIENTS

- Local, national and international businesses

OUR PARTNERS

- Financial institutions
- Government departments and agencies
- Regional and industry associations
- Social economy and cooperative organizations

2006-2007 HIGHLIGHTS

FINANCING

- 1,451 financing operations to support 1,112 Québec and foreign businesses
- Authorized financing of $860 million in support of projects with a value of $4.3 billion that are expected to create 10,959 jobs and retain another 10,722[1]
- 88% of financing operations regionally managed and approved
- Leverage of $5.00 of investment per dollar of financing

REGIONAL ECONOMIC INTERVENTION FUND (FIER)

- $35.7 million invested in Québec businesses through FIER-Regions and the Support Funds as at December 31, 2006
- Authorization by FIER Partners, L.P. of investments of $140 million in 10 sector-based funds as at March 31, 2007

TAX MEASURES

- 2,682 certificates issued to companies to qualify them for tax credits

INTERNATIONAL PROSPECTING

- 52 foreign investment or reinvestment projects with a total value of $960 million that will contribute to creating 6,726 new jobs[2]
- Inauguration of two offices abroad; one in Beijing, China, and the other in Tokyo, Japan

1 According to business forecasts, project completion and job creation span a maximum period of three years, and job retention a maximum period of two years.

2 These data are based on business forecasts. To avoid double counts, these jobs must not be added to jobs resulting from financing operations.

CUSTOMER SERVICE

- 96% of financial partners satisfied with their relationship with Investissement Québec
- 94% of clients satisfied with financing services rendered
- 91% of clients satisfied with tax measure-related services rendered

FINANCIAL PERFORMANCE

- Net income of $53.5 million, surpassing the objective for the year by $24.4 million
- Equity of $509.4 million as at March 31, 2007

MAIN PORTFOLIO DATA AS AT MARCH 31, 2007

	Complementary Financing	Economic Development Tools	Total
Value of portfolio	$754.2 M	$3,316.7 M	$4,070.9 M
Number of financing operations	2,715	433	3,148
Average value of financing operations	$0.3 M	$7.7 M	$1.3 M

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THIS YEAR, WE'VE TRULY OUTDONE OURSELVES.

FRANÇOIS BRUNELLE

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Against the backdrop of a rising Canadian dollar, increasing energy and fuel costs and growing competition from emerging countries where labour is cheap, Investissement Québec has outdone itself, going beyond its objectives in most areas of its mission. From this perspective, fiscal 2006-2007 was a very gratifying year for us.

Our employees deserve full praise for this accomplishment. They have shown the true level of their skills. Their expertise has made the Corporation a success in this complex environment and made many investment projects come true in Québec that have contributed to economic development and job creation.

STRONGER LEVERAGE AND THOUSANDS OF JOBS

We authorized 1,451 financing operations, a result comparable to last year's, which was a record. With financing of $860 million, we helped to implement projects with an overall value of $4.3 billion. Investissement Québec's leverage was even greater than for the preceding year. Every dollar committed by Investissement Québec generated $5.00 in investment in the province compared with $4.30 last year. Authorized projects will create nearly 11,000 jobs and retain more than 10,000.

A PROFITABLE CORPORATION

Another outstanding feat, Investissement Québec generated net income of $53.5 million, nearly double the objective we had set at the beginning of the year. Our operating costs, which totalled $47.6 million, were entirely financed by the Corporation's operations. Investissement Québec's profitability is the result of constant effort to improve our risk management. With this in mind, we created the Department of Risk Management and Financial Engineering specifically to address these issues.

In doing this, the team at Investissement Québec has more than risen to the Government of Québec's 2004 challenge—to self-finance administration costs without jeopardizing the core mission of economic development. Today, Investissement Québec is a state-owned enterprise whose high level of excellence each year makes a dual target attainable: to develop Québec's economy and to be a profitable corporation. This strong growth is net value added for our clients and partners. Their satisfaction rates—94% and 96% respectively—have never been higher.

FOREIGN INVESTMENT PER WEEK

In a setting of fierce international competition, our continuing effort to promote Québec and prospect foreign investors abroad has borne fruit. We kept up the pace of closing on average one global project per week. The result is 52 committed foreign investment projects. The value of these projects totals $960 million—outstripping our objective by 41%. The number of jobs linked to these projects more than doubled compared with last year and exceeds 6,000.

To succeed internationally, we planted both feet firmly in the Asian market. We opened two offices, one in Tokyo and the other in Beijing. As a result, we are better positioned to attract Asian investors to Québec. Investissement Québec now boasts eight offices abroad.

TAX MEASURES, FORESTRY AND THE FIER FUNDS

In administering tax measures, we issued 2,682 certificates—38% more than our set objective. This number includes 203 new certificates, of which more than 80% were issued to businesses in the resource regions.

October 2006 saw the implementation of the Support for the Forest Industry Program (PSIF), which is designed to allow businesses in the forestry sector to face the current crisis and develop bases for renewed success. This three-year plan is also threefold: the consolidation of, investment in and modernization of forestry sector businesses. We have already processed more than 75 files and authorized financing totalling $54 million to carry out projects with a value of $122 million. Based on business forecasts, 170 jobs will be created and nearly 1,700 will be retained. Over 140 applications for financing are currently in the system.

Implementation of the Regional Economic Intervention Fund (FIER) stepped up in 2006-2007. Since the fund was created, IQ FIER inc. has certified 29 FIER-Regions and 12 Support Funds. FIER Partners, L.P. has authorized investments of $140 million in 10 investment funds. Now, businesses in all regions of Québec can take advantage of one or another of the FIER funds' various components.

A NEW STRATEGIC PLAN

Three years ago, the Corporation adopted a business plan for 2004-2007. The year just ended was its final year. We surpassed our objectives for each of these years. Overall, we authorized more than 4,000 operations representing $3 billion in financing. We supported projects with a total value of more than $13 billion, which are anticipated to create more than 27,000 jobs.

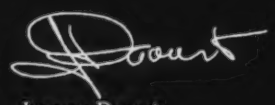
Fiscal 2007-2008 will witness the adoption of a new three-year strategic plan. It will maintain our commitment to supporting Québec businesses and foreign-owned subsidiaries located in Québec. Its target will be to increase Québec's attractiveness in an extremely competitive global economic environment and to update our business solutions so that they dovetail more closely with the needs of businesses at home and abroad that wish to grow in Québec. The new strategic plan will see us implementing an integrated services approach for businesses so that doing business with Investissement Québec will become even easier.

THANK YOU!

I joined the Corporation in June 2006. After a long career in the financial services sector, I have discovered Investissement Québec—it is a too-closely guarded secret. As a priority, I intend to promote the Corporation among businesspeople, and I will do my utmost—wherever and whenever—to close on a good deal.

During the year, I undertook a tour of most of Québec's regions. In 10 months, I also took part in six international missions. I was able to present Québec's advantages in India, China, Japan, Texas, and California and great world meetings, such as the Davos World Economic Forum and the Farnborough Air Show.

Investissement Québec's contribution to our economic life is significant. It is an honour to head this organization and to work alongside the women and men that are the wellspring of its success. I have been impressed with the depth of their skill and warmed by the generosity of their welcome. I would like to thank each of them with all my heart.



Jacques Daoust
President and Chief Executive Officer

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ONE TEAM, ONE MISSION

1. **ANDRÉ CÔTÉ**
   EXECUTIVE VICE-PRESIDENT, GENERAL ADMINISTRATION

2. **PIERRE B. LAFRENIÈRE**
   EXECUTIVE VICE-PRESIDENT, CORPORATE AFFAIRS AND GENERAL SECRETARY

3. **CLAUDE DULUDE**
   VICE-PRESIDENT, REGIONAL OPERATIONS

4. **LOUISE MORIN**
   VICE-PRESIDENT, INTERNATIONAL AFFAIRS

5. **MICHEL DESCHAMPS**
   VICE-PRESIDENT, CREDIT AND RISK MANAGEMENT

6. **LUCIEN BIRON**
   VICE-PRESIDENT, GOVERNMENT MANDATES

7. **JEAN-SÉBASTIEN LAMOUREUX**
   VICE-PRESIDENT, INVESTISSEMENT QUÉBEC SUBSIDIARIES

8. **RODRIGUE BRILLANT**
   VICE-PRESIDENT, HUMAN RESOURCES

9. **CLAUDE CARBONNEAU**
   VICE-PRESIDENT, COOPERATIVES AND OTHER SOCIAL ECONOMY ENTERPRISES

CHRISTIAN FLEURY (1, 2, 3, 5)
FRANÇOIS BRUNELLE (4, 6, 7, 8, 9)

FROM PLANNING TO REALITY

IMAGINE.
DEVELOPING THE ECONOMY OF QUÉBEC'S REGIONS.

INNOVATING. CREATING.

CAMOPLAST

Camoplast has been manufacturing snowmobile tracks since 1958. It operates 12 plants in Canada, the United States and Europe, and boasts a workforce of 1,850. Camoplast also produces tracked vehicles, track systems and components for leading manufacturers in a range of industries: automotive, military equipment, heavy transportation, construction, and commercial, agricultural and recreational vehicles. To ensure its position as a leader, Camoplast decided to invest $9 million in a new research centre.

Investissement Québec awarded the company an interest-free loan, which will help create 35 specialized jobs and strengthen Camoplast's role as a key player in Estrie.

GILBERT DUCLOS

PIERRE MARCOUILLER, CHAIRMAN AND CEO

IMAGINE.
HELPING TO MODERNIZE THE FOREST INDUSTRY.

INNOVATING. CREATING.

APPALACHIAN FLOORING

Appalachian Flooring manufactures laminated hardwood flooring, which it sells mainly in Canada and the United States. This year, the company decided to expand and update its facilities in Cowansville to boost productivity, maintain product quality and meet Asian competitors head on.

Appalachian Flooring obtained a loan and a loan guarantee under Investissement Québec's Support for the Forest Industry program.

GILBERT DUCLOS

JEAN LEDUC, PRESIDENT

IMAGINE.
WORKING WORLDWIDE.

INNOVATING. CREATING.

EIDOS

British video game publisher Eidos Interactive, creator of Lara Croft, decided to open a development studio in Montréal, due mainly to the incomparable talent of Québec's multimedia developers. Eidos plans to invest more than $50 million in its new studio and hire at least 350 people within three years. The Montréal team will design major titles for next-generation platforms.

Investissement Québec approached Eidos two years ago and played a key role in the company's decision to locate its largest studio in Montréal rather than anywhere else in the world.

GILBERT DUCLOS

STÉPHANE D'ASTOUS, GENERAL MANAGER

IMAGINE.
FINANCIAL SOLUTIONS FOR OUR CLIENTS.

INNOVATING. CREATING.

NITEK LASER INC.

Nitek Laser specializes in sheet metal laser cutting, a very advanced field that uses a new technology. When the founder-owner decided to retire, he turned to Investissement Québec, which referred him to the SMB Financial program. The program made it possible for the President and CEO to obtain a loan and buy the company. The change of ownership brought renewed life to the company. Nitek Laser employs more than 20 people and is enjoying strong growth.

Thanks to Investissement Québec's SMB Financial program, the CEO was able to buy the business and take the helm.

GILBERT DUCLOS

CHARLES BEAUCHEMIN, FOUNDER, AND FRANÇOIS DUBUC, PRESIDENT AND CEO

REVIEW OF OPERATIONS AND RESULTS

OVERALL FINANCING RESULTS

Investissement Québec surpassed its objectives for 2006-2007. The number of financing operations, the reported value of the projects financed and the number of jobs created were above stated objectives for the year while authorized financing achieved planned objectives.

Operating in all Québec regions, the Corporation authorized 1,451 financing operations, mainly in the secondary and tertiary sectors. It supported investment projects in excess of $4.3 billion to reach its annual objective. With these financing operations, businesses will increase their productivity, capitalize on their expertise, penetrate new markets and develop new products.

According to business forecasts, the Corporation's financing operations served to create 10,959 jobs, as well as to retain 10,722. Of particular interest is that Investissement Québec handily surpassed its job creation objectives, with the total number amounting to 3,073 more jobs than set out in its annual action plan and in spite of the current manufacturing sector reorganizations taking place in Québec's economic setting.

For each dollar of financing, the value of this year's projects was higher than for the previous year. Leverage increased from $4.30 to $5.00 of investment per dollar of financing. Authorized financing by the Corporation was down over fiscal 2005-2006 due to the low number of buyer-credits financed, while the number of jobs created was up 19%.

OVERALL FINANCING RESULTS

	2006-2007 Objectives	2006-2007	2005-2006
Number	1,366	1,451	1,455
Financing authorized ($M)	862.3	860.0	1,224.0
Reported value of projects [1] ($M)	4,308.7	4,329.9	5,270.9
Number of new jobs reported [1]	7,886	10,959	9,202
Number of existing jobs [1]	n/a	65,597	53,122
Number of jobs retained [1] [2]	n/a	10,722	n/a

(1) According to business forecasts, project completion and job creation span a maximum period of three years.

(2) Jobs retained are full-time positions that were threatened with elimination without the completion of company projects, usually within a 12-month time frame for SMB Financial projects, or within 24 months for large scale projects (PASI or Specialized Financing).

RESULTS BY ADMINISTRATIVE REGION

Investissement Québec contributes to economic development in all Québec regions. It now operates 16 business centres to serve clients throughout Québec.

The regional breakdown of financing allocated to businesses mirrors the distribution of Québec's economic activity, which is primarily concentrated in the Montréal, Montérégie and Capitale-Nationale regions. These regions, with an economic weight representing 60% of Québec's GDP,[3] accounted for 47% of financing operations approved in 2006-2007. Activity in Québec's resource regions,[4] which generated 13% of Québec GDP, accounted for 18% of the Corporation's operations.

AUTHORIZED FINANCING BY ADMINISTRATIVE REGION, 2006-2007

		Value ($M)		Reported Jobs [1]	
Administrative Region	Number of Financing Operations	Financing	Projects [1]	Existing	New
01 – Bas-Saint-Laurent	67	19.5	84.6	2,004	321
02 – Saguenay–Lac-Saint-Jean	98	198.7	712.6	3,904	637
03 – Capitale-Nationale	137	53.6	441.3	3,997	887
04 – Mauricie	28	76.2	234.5	1,844	31
05 – Estrie	56	34.0	134.7	6,631	565
06 – Montréal	302	148.4	1,183.4	17,524	3,108
07 – Outaouais	53	13.2	59.7	801	199
08 – Abitibi-Témiscamingue	12	6.5	26.7	291	38
09 – Côte-Nord	10	3.5	9.9	662	2
10 – Nord-du-Québec	5	0.8	3.0	44	–
11 – Gaspésie–Îles-de-la-Madeleine	39	9.9	28.4	1,411	45
12 – Chaudière-Appalaches	127	31.4	156.3	3,930	1,946
13 – Laval	65	25.0	149.8	2,830	328
14 – Lanaudière	61	20.3	112.4	2,490	288
15 – Laurentides	81	107.9	440.2	2,684	573
16 – Montérégie	244	92.7	462.4	12,008	1,749
17 – Centre-du-Québec	66	18.4	90.0	2,542	242
TOTAL	1,451	860.0	4,329.9	65,597	10,959
TOTAL – RESOURCE REGIONS	259	315.1	1,099.7	10,160	1,074

(1). According to business forecasts, project completion and job creation span a maximum period of three years.

3. "Gross Domestic Product (GDP) by administrative region at cost bases, 2000-2005." Source: ISQ, Economic Accounts.

4. The resource regions are Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

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RESULTS BY ECONOMIC SECTOR

Investissement Québec's financing operations for 2006-2007 break down as follows: 65% in the secondary sector, 33% in the tertiary sector and 2% in the primary sector. The Corporation increased financing in the forestry and wood and paper products sectors primarily through the new PSIF program. The value of financing operations in these sectors tripled to $149 million, which represented about 17% of overall financing in 2006-2007.

As the Corporation supported major projects in the Aluminum Valley, financing values rose from $35 million to more than $200 million in the primary processing metals and metal products sector, representing a quarter of all financing awarded for the year.

Furthermore, the value of the financing in the machinery sector more than doubled, while the value of supported projects was multiplied six times, totalling $763 million. This sector, like the others affected by the threat of emerging economies, might face heightened competition in coming years.

Conversely, the value of financing to transportation equipment decreased significantly. The Corporation contributed to carrying out a number of research and development projects over the last few years; these large scale projects, however, are slated for completion over a long period. This sector remains strategic to Québec and represents nearly 15% of the total value of the financing granted by Investissement Québec.

Last, financing in the tertiary sector almost doubled to 17%, reflecting the increased importance of services in the manufacturing production chain.

AUTHORIZED FINANCING BY ECONOMIC SECTOR, 2006-2007

Economic Sector	Number of Financing Operations	Value ($M)		Reported Jobs [1]	
		Financing	Projects [1]	Existing	New
PRIMARY					
Agriculture and fisheries	11	2.4	7.3	280	49
Forestry	16	4.7	11.4	1,398	8
Mining	2	3.8	16.0	243	0
SUB-TOTAL	29	10.9	34.7	1,921	57
SECONDARY					
Food and beverage	113	46.1	224.0	5,332	655
Rubber and plastic	49	17.4	109.3	2,814	240
Leather industry	5	2.0	8.6	535	2
Textile products and primary processing textile	20	5.6	29.1	959	77
Clothing	24	6.1	14.9	872	37
Wood products	137	65.7	190.6	3,792	661
Furniture	39	5.9	35.6	1,104	318
Paper [2]	14	78.6	233.1	2,072	(36)
Printing	24	4.8	21.3	970	37
Primary processing metals and metal products	161	203.4	768.5	7,229	919
Machinery	105	59.7	763.3	8,329	542
Transportation equipment	61	126.3	534.6	8,234	2,723
Electrical and electronic products	73	34.2	212.0	5,903	835
Non-metallic mineral products	26	7.4	47.7	1,132	75
Refined oil, coal and chemical industry products	52	27.9	191.6	3,295	476
Various manufacturing industries	35	11.5	65.2	1,815	394
SUB-TOTAL	938	702.6	3,449.4	54,387	7,955
TERTIARY					
Professional, scientific and technical services	67	20.6	87.3	1,394	158
Design of computer systems and related services	119	30.5	127.7	2,036	428
Health care and social services	28	3.7	11.3	379	36
Telephone call centres	2	0.4	3.6	13	2
Other corporate services	12	2.1	5.3	111	56
Lodging and food services	35	26.9	330.1	1,015	399
Various services [3]	221	62.3	280.5	4,341	1,868
SUB-TOTAL	484	146.5	845.8	9,289	2,947
TOTAL	1,451	860.0	4,329.9	65,597	10,959

(1) According to business forecasts, project completion and job creation span a maximum period of three years.

(2) One of the businesses that Investissement Québec supported in this sector consolidated its operations, resulting in a loss of jobs. However, by consolidating, this same business retained 618 jobs in Québec.

(3) The software publishing and waste and sanitation management sectors represent respectively 22.6% and 13.5% in terms of number of operations.

AUTHORIZED FINANCING BY ECONOMIC SECTOR, 2006-2007

Economic Sector	Number of Financing Operations	Value ($M)		Reported Jobs [1]	
		Financing	Projects [1]	Existing	New
PRIMARY					
Agriculture and fisheries	11	2.4	7.3	280	49
Forestry	16	4.7	11.4	1,398	8
Mining	2	3.8	16.0	243	0
SUB-TOTAL	29	10.9	34.7	1,921	57
SECONDARY					
Food and beverage	113	46.1	224.0	5,332	655
Rubber and plastic	49	17.4	109.3	2,814	240
Leather industry	5	2.0	8.6	535	2
Textile products and primary processing textile	20	5.6	29.1	959	77
Clothing	24	6.1	14.9	872	37
Wood products	137	65.7	190.6	3,792	661
Furniture	39	5.9	35.6	1,104	318
Paper [2]	14	78.6	233.1	2,072	(36)
Printing	24	4.8	21.3	970	37
Primary processing metals and metal products	161	203.4	768.5	7,229	919
Machinery	105	59.7	763.3	8,329	542
Transportation equipment	61	126.3	534.6	8,234	2,723
Electrical and electronic products	73	34.2	212.0	5,903	835
Non-metallic mineral products	26	7.4	47.7	1,132	75
Refined oil, coal and chemical industry products	52	27.9	191.6	3,295	476
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RESULTS BY TYPE OF FINANCING OPERATION

Investissement Québec has an assortment of financial solutions for supporting businesses at any stage in their growth. During the year just ended, businesses used primarily loan and financial commitment guarantees to obtain loans from private financial institutions more easily. In all, guarantees represented 57% of financing operations and 38% of authorized financing.

Investissement Québec also awarded non-repayable financial contributions, mainly under the Immigrant Investor Program. This program supports Québec SMB projects through the income generated by the capital of immigrant investors. This program is managed by IQ Immigrants Investisseurs inc., a subsidiary of Investissement Québec, under a tripartite agreement with financial intermediaries and the Ministère de l'Immigration et des Communautés culturelles.

BREAKDOWN OF AUTHORIZED FINANCING BY TYPE OF OPERATION, ACCORDING TO NUMBER AND VALUE, 2006-2007

Type of Financing Operation	Number	(%)	Value ($M)	(%)
Loan guarantee	643	44.3	201.0	23.4
Financial commitment guarantee	183	12.6	128.6	15.0
Loan	164	11.3	122.1	14.2
Equity loan	27	1.9	21.0	2.4
Interest-free loan	33	2.3	218.5	25.4
Contribution repayable from royalties	2	0.1	49.3	5.7
Non-repayable or conditional repayable contribution and interest payments	399	27.5	119.5	13.9
TOTAL	1,451	100.0	860.0	100.0

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REVIEW OF OPERATIONS AND RESULTS BY STRATEGY

During the year, the Corporation carried out its operations according to the strategies defined in its 2004-2007 business plan—encouraging SMBs to invest and create jobs, managing economic development tools, improving performance and optimizing client service.

STRATEGY 1: ENCOURAGING SMBs TO INVEST AND CREATE JOBS

COMPLEMENTARY FINANCING

Investissement Québec offers SMBs financing that complements the financing available from lending institutions and enables them to carry out start-up, expansion, R&D, export or working capital growth projects. Without this financing, such projects would likely not be undertaken.

In 2006-2007, Investissement Québec surpassed its complementary financing objectives, mainly in the Exports, Investment, Working Capital Growth and Refundable Tax Credit Financing segments of its SMB Financial program. The Corporation authorized financing operations of $287.8 million, enabling SMBs to invest $941.8 million in projects anticipated to both create 3,416 jobs and retain 3,139.

COMPLEMENTARY AUTHORIZED FINANCING BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

Program or Program Segment	Number of Financing Operations		Value ($M)		Reported Jobs [1]	
	Objectives	Authorized	Financing	Projects [1]	Existing	New
SMB FINANCIAL						
Production and alliance						
Investment	159	170	76.2	208.3	4,063	920
Strategic alliance	14	12	2.8	16.8	414	26
Tourism	13	9	2.5	9.9	81	25
Research and development						
Tax credit	315	331	72.4	322.9	7,919	1,027
Development	28	27	7.7	19.9	573	40
Exports						
Line of credit	108	152	46.5	116.8	4,012	326
Marketing	52	55	24.4	81.8	2,609	351
Foreign exchange line guarantee	1	2	0.7	1.3	57	–
Working capital						
Growth	36	45	14.3	28.3	1,582	233
Recovery	9	5	0.9	2.2	205	–
Succession	34	26	14.0	63.6	1,252	5
Experimentation measures	7	14	6.5	18.2	326	283
SUB-TOTAL	776	848	268.9	890.0	23,093	3,236
SPECIFIC PROGRAMS						
Group entrepreneurship						
Cooperatives	32	32	7.1	19.5	919	74
NPOs	34	40	7.1	16.1	560	29
Capitalization of social economy enterprises						
Cooperatives	35	44	2.5	7.4	555	32
NPOs	35	41	2.2	8.8	229	45
SUB-TOTAL	136	157	18.9	51.8	2,263	180
TOTAL	912	1,005	287.8	941.8	25,356	3,416

(1) According to business forecasts, project completion and job creation span a maximum period of three years.

COMPLEMENTARY AUTHORIZED FINANCING BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

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BUSINESS DEVELOPMENT AND PROMOTIONAL ACTIVITIES IN QUÉBEC

During the year just ended, the Corporation pursued its business development strategy of targeting Québec businesses in need of a financial partner to carry out their plans. It developed a tool for following up on client relationships and produced a business development manual. The manual was distributed to all portfolio managers and used as a reference guide in training sessions. It contains a toolkit for understanding client needs more clearly and meeting them more effectively.

Investissement Québec acted in two areas: partners and clients. First, it raised its profile with financial institutions to promote its service offering and encourage financial institutions to call on Investissement Québec when the risk level of clients' projects exceeds their ceiling. This approach was carried out in working breakfasts and meetings. Second, it continued its plans to target new clients. As a result, the Corporation targeted and met with more than 150 potential clients alone or in partnership with financial institutions, regional field agents and sectoral associations.

In October 2006, the Corporation undertook a telemarketing campaign of potential clients targeted by three business centres. The campaign was linked to its business development initiative: its purpose was to promote Investissement Québec's products and services and maximize financing opportunities. In all, 265 businesses were defined as potential leads. Of these, 167 contacts were made, of which 62 agreed to meet with the Corporation's representatives.

Concurrently, the Corporation undertook a public affairs program to increase its visibility and provide support in reaching its business development objectives. It continued its advertising program and placed 160 spots in the print media. It also provided financial support for various events, including Bio Contact, the annual convention of the Conseil de la transformation agroalimentaire et des produits de consommation (CTAC) and the Mercuriades.

The Corporation's representatives took part in over 80 activities at the invitation of industry associations, chambers of commerce and partner financial institutions, or in cooperation with them. The President and Chief Executive Officer made 13 presentations to various organizations and associations to explain Investissement Québec's role. About 60 press files were issued, and the President and Chief Executive Officer accepted 9 media interviews. The Corporation responded to more than 150 print and electronic media requests.

Investissement Québec published three issues of its *SMB Solutions* newsletter, available in print or electronic versions. In February 2007, the number of subscribers was 1,144, a 113% increase over the previous year.

Since the overhaul of its Web site in May 2005, the Corporation has worked hard to increase its visibility to Web users with advertising campaigns on Québec business portals, keyword purchasing campaigns on search engines, direct marketing campaigns to clients and partners and e-mail campaigns to targeted business associations to increase the number of subscribers to *SMB Solutions*.

These efforts have been successful and the numbers speak for themselves: hits on the Web site have risen 41% and pages visited 54% compared with the previous year. On the same trend, subscriptions to all publications combined were up 45%. Finally, the Corporation's Reception and Information Service handled more than 9,000 enquiries by telephone, e-mail and at customer service counters.

STRATEGY 2:
MANAGING ECONOMIC DEVELOPMENT TOOLS

FINANCIAL PRODUCTS

The government assigned the Corporation responsibility for managing economic development tools. These are made up primarily of financial incentive programs designed to increase investment in Québec. These incentives target both Québec and foreign businesses with projects in Québec.

During the year, Investissement Québec surpassed its objectives, especially for the Immigrant Investor and Strategic Support for Investment (PASI) programs. Authorized financing totalled $572.2 million, allowing businesses to invest nearly $3.4 billion in projects they expect to create 7,543 jobs and retain 7,583.

On October 18, 2006, Investissement Québec added the PSIF to the economic development tools it administers. The program supports the consolidation of, investment in and modernization of forestry sector businesses. The number of investment projects carried under the PSIF is higher than the objective set during the year.

Note that an operation was also authorized under the Biolevier Program since one application was still being reviewed before the program ended on March 31, 2004.

Last, authorized buyer-credits operations were carried out in the aerospace sector to support projects of $293.2 million, for total financing of $73.3 million.

AUTHORIZED FINANCING BY ECONOMIC DEVELOPMENT TOOL, 2006-2007

	Number of Financing Operations		Value ($M)		Reported Jobs [1]	
Program	Objectives	Authorized	Financing	Projects [1]	Existing	New
Immigrant Investor	333	344	50.6	636.8	14,507	2,261
PSIF	45	56	54.0	122.3	2,955	170
PASI	26	33	222.3	1,739.0	22,733	4,930
Government mandates	–	1	165.0	570.0	–	180
Buyer-credits	50	11	73.3	293.2	–	–
Biolevier	–	1	7.0	26.8	46	2
TOTAL	**454**	**446**	**572.2**	**3,388.1**	**40,241**	**7,543**

(1) According to business forecasts; project completion and job creation span a maximum period of three years.

PROSPECTING FOREIGN INVESTMENTS

RESULTS

Investissement Québec's prospecting activities and financing tools helped finalize 52 foreign company projects worth $960.4 million. In all, 21 subsidiaries of foreign firms opened for business in Québec, and 31 others expanded, which is expected to create more than 6,700 jobs according to these companies' forecasts. The Corporation exceeded its annual objectives by 41% due to the reported value of these projects. The number of new jobs reported is three times higher than the objective for the year.

FOREIGN INVESTMENTS

	2006-2007 Objectives	2006-2007	2005-2006
Number of projects [1]	n/a	52	59
Reported value of projects ($M)	680.0	960.4	1,512.5
Number of new jobs reported [2]	2,100	6,726	2,699

(1) For the period, prospecting objectives were based on project value rather than number.

(2) According to business forecasts, job creation spans a maximum period of three years. To avoid double counts, these jobs must not be added to jobs resulting from financing operations.

The results for 2006-2007 are in line with the Government of Québec's broad sector guidelines. In fact, the main investments were in the information technologies and health sciences sectors. They represented respectively 49% and 17% of total investment.

PROSPECTING ACTIVITIES

After reviewing its objectives and redefining its results indicators, the Corporation continued its efforts to increase its presence abroad and strengthen its bonds with the subsidiaries of foreign companies located in Québec.

This initiative resulted in the opening of two offices abroad; one in China, and the other in Japan. In addition, the Corporation increased the number of meetings with subsidiaries of foreign companies in Québec, from 198 in 2005-2006 to 334 in 2006-2007. Overall, Investissement Québec met with a larger number of international companies during the year, with the emphasis on businesses with true investment potential.

It also met with 128 new foreign companies and hosted 153 missions by foreign investors in 2006-2007.

Last, 149 proposals of interest[5] were made to prospective investors around the world.

GEOGRAPHIC BREAKDOWN OF ACTIVITIES

The investments announced in 2006-2007 originated from 13 countries including the United States and France, representing 37% and 21% of investment projects and 32% and 22% of reported jobs respectively.

These foreign company projects were carried out in 10 of Québec's administrative regions but primarily in Montréal, which received about 60% of the investments in terms of number of projects, value of investments and number of jobs created.

5. Documents presenting Quebec's comparative advantages and used to support prospecting activities.

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5 Documents presenting Québec's comparative advantages and used to support prospecting activities.

PROMOTIONAL ACTIVITIES

Investissement Québec implemented a communications and marketing plan targeting investors in priority economic sectors to support its prospecting activities abroad. This integrated approach was focused on the aerospace, life sciences and multimedia sectors.

The year was highlighted by the Corporation's increased visibility at events to promote Québec's advantages among its international clients. Investissement Québec was very active at the Farnborough Air Show, Orlando's HeliExpo and Chicago's BIO 2006. Special effort was exerted to promote the multimedia and electronic games sector with a major presence at Los Angeles' Electronic Entertainment Expo (E3), the London Games Festival, San Francisco's Game Developers Conference and the Montréal International Game Summit.

The Corporation welcomed 12 journalists from abroad, who published several stories on Québec's advantages in the international media, including the prestigious British magazine *Develop*, which published a series of articles covering the video game industry in Québec.

The Corporation also took the opportunity to combine these public affairs activities with prospection meetings with international clients. This included hosting exclusive Cirque du Soleil Tapis Rouge events for businesspeople in Brussels, New York and Dallas.

Investissement Québec published four issues of *Invest-Québec*, its quarterly newsletter on international investment. Available in English and French, the newsletter is distributed to over 5,000 clients around the world and nearly 1,200 electronic subscribers; this is an increase of almost 57% compared with the previous year.

Members at the annual meeting of the Economic Developers Association of Canada (EDAC) awarded Investissement Québec first prize in the "Promotions–Events" category for the kit promoting Québec's biopharmaceutical industry that was handed out to all participants at the BIO 2006 show.

FIER

The Regional Economic Intervention Fund (FIER) is designed to provide businesses with a source of capital during the start-up and development stages, restructuring or transfer of ownership. It also supports the creation of sector and start-up funds and the implementation of structuring projects, mainly in the regions. It has three segments: the Support Funds, the FIER-Regions Funds and FIER Partners.

Investissement Québec's subsidiary, IQ FIER inc., certifies each FIER-Regions and Support Fund, coordinates follow-up, ensures accountability and delivers the required amounts to the appropriate segments. It is also a limited partner in FIER Partners L.P., which is responsible for investing in the sector funds.

Since the FIER was created in 2004, IQ FIER inc. has certified 29 FIER-Regions of which 24 are active and 12 Support Funds, 9 of which are active. A FIER fund is now available to every Québec administrative region. The Board of Directors of FIER Partners, L.P. has authorized investments of $140 million in 10 investment funds, of which 7 are active.

Under the agreements between the investors and IQ FIER inc., capital contributions into the certified funds span a period of about three years and are made in four instalments. This timeframe optimizes the use of public funds and allows investors enough time to plan their investments.

As at December 31, 2006, capital contributions made into all FIER-Regions stood at $55.1 million. Of this amount, $33.9 million was invested by the FIER-Regions in businesses for a total of 55 investments. Capital contributions made into all Support Funds totalled $12.4 million. Of this amount, $1.8 million was invested in businesses by the Support Funds.

FINANCIAL POSITION OF FIER AS AT MARCH 31, 2007

		Budget Allowance			
	Number of Certified Funds	Total Allowance ($M)	Committed Amount [1] ($M)	Disbursed Amount [2] ($M)	Invested Amount [3] ($M)
FIER-Regions	29	192.0	191.4	55.1	33.9
Support Funds	12	36.0	24.0	12.4	1.8

(1) This amount represents capital contributions by IQ FIER inc. with disbursements made over a period of about three years.

(2) This sum is the amounts paid by IQ FIER inc. to the FIER-Regions and Support Funds. Information as at December 31, 2006.

(3) Investments in businesses made by the FIER-Regions and Support Funds. Information as at December 31, 2006, provided by the funds.

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TAX MEASURES

Since April 2000, Investissement Québec has administered various tax measures designed to increase research and development projects, technological innovation, job creation and economic development in the regions and large urban centres. On the one hand, measures to expand payroll are used to support economic activity in certain promising sectors as well as regional development. On the other hand, measures targeting designated sites continue to support businesses in the biotechnology, information technology and multimedia sectors.

In an internationally competitive environment, these tax tools place Québec in the vanguard in attracting foreign companies to settle. The Corporation is responsible for evaluating company eligibility applications and issuing the certificates for the different measures, as well as promoting them.

In 2006-2007, Investissement Québec issued 203 new certificates to businesses, surpassing its objective by 35%. These businesses have recently created, or expect to create within the next three years, 6,948 jobs in the biotechnology, energy, metal and wood processing, non-metallic minerals, aluminum and seafood sectors.

In addition, the Corporation issued 2,479 annual certificates validating the eligibility, for a single fiscal year or given calendar year, of the operations or the employees of companies who already benefit from tax measures. The result exceeded by 38% the objective set at the beginning of the year for the number of annual certificates issued.

TAX MEASURES

	2006-2007 Objectives	2006-2007	2005-2006
New certificates	150	203	267
Number of annual certificates	1,800	2,479	2,483
Reported jobs due to new certificates[1]	n/a	6,948	2,999

(1) According to business forecasts, these jobs were created recently or will be in the next three years. To avoid double counts, these jobs must not be added to jobs resulting from financing operations.

The tax credit for processing operations in the resource regions is by far the most popular in terms of certificates issued. In fact, it represented 71% of the 203 new certificates and 56% of the 2,479 annual certificates issued by Investissement Québec. Incidentally, 31% of annual certificates are related to measures targeting designated sites[6].

CERTIFICATES BY TAX MEASURE

Tax Measure	New Certificates		Annual Certificates
	Number	Reported Jobs [1]	Number
Information technology development centres (CDTI)	–	–	37
Cité Multimédia	9	21	153
New economy centres (CNE)	9	132	435
Centre national des nouvelles technologies de Québec (CNNTQ)	5	17	120
Biotechnology development centres (CDB)	1	–	12
Tax credit for the Gaspésie and other maritime regions of Québec	14	293	103
Tax credit for innovation centres	–	–	10
Tax credit for nutraceuticals and functional foods	–	–	–
Tax credit for processing operations in resource regions	145	5,079	1,381
Biotechnology development	–	–	1
Tax credit for the production of multimedia titles	4	–	68
Tax credit for the Aluminum Valley	11	739	81
E-Commerce Place	1	–	13
E-business activities	1	–	54
Montréal Foreign Trade Zone at Mirabel	–	–	10
Tax credit for major employment-generating projects	3	667	1
TOTAL	203	6,948	2,479

(1) According to business forecasts, these jobs were created recently or will be created in the next three years. To avoid double counts, these jobs must not be added to jobs resulting from financing operations.

6 The measures targeting designated sites are as follows: CDTI, Cité Multimédia, CNE, CNNTQ, CDB, E-Commerce Place, the Montréal Foreign Trade Zone at Mirabel and the Tax credit for major employment-generating projects.

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6 The measures targeting designated sites are as follows: CDTI, Cité Multimédia, CNE, CNNTQ, CDB, E-Commerce Place, the Montréal Foreign Trade Zone at Mirabel and the Tax credit for major employment-generating projects.

In all, 82% of those businesses that are newly eligible for a tax measure are located in the resource regions, and 87% of the jobs that have been or will be created within the next three years are credited to them. The Saguenay–Lac-Saint-Jean and Mauricie regions account for 72% of these new jobs under the tax credit for processing operations in the resource regions. Of the businesses anywhere in Québec that had already qualified for tax measures, 66% are located in the resource regions.

NEW CERTIFICATES BY ADMINISTRATIVE REGION

	New Certificates		Annual Certificates
Administrative Region	Number	Reported Jobs [1]	Number
01 – Bas-Saint-Laurent	24	397	340
02 – Saguenay–Lac-Saint-Jean	55	1,710	551
03 – Capitale-Nationale	5	17	154
04 – Mauricie	45	3,282	376
05 – Estrie	2	–	51
06 – Montréal	18	688	285
07 – Outaouais	2	–	31
08 – Abitibi-Témiscamingue	19	133	141
09 – Côte-Nord	9	409	75
10 – Nord-du-Québec	–	–	13
11 – Gaspésie–Îles-de-la-Madeleine	15	137	128
12 – Chaudière-Appalaches	1	95	43
13 – Laval	3	–	54
14 – Lanaudière	–	–	27
15 – Laurentides	4	70	81
16 – Montérégie	1	10	119
17 – Centre-du-Québec	–	–	10
TOTAL	203	6,948	2,479
TOTAL–RESOURCE REGIONS [2]	167	6,068	1,624

(1) According to business forecasts, these jobs were created recently or will be created in the next three years. To avoid double counts, these jobs must not be added to jobs resulting from financing operations.

(2) The resource regions are Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

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CONSULTING

Well known for its financial expertise, Investissement Québec is advisor to and analyst for several government departments and agencies.

Under a special agreement, the Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE) relies on Investissement Québec's expertise in financing arrangements and financial analysis to fulfil various mission requirements and improve coordination between the two organizations. For example, in 2006-2007, Investissement Québec processed 10 investment projects for the MDEIE under the Economic Projects Support Program (PSPE). These projects represent investments valued at $1.7 million.[7]

Moreover, Investissement Québec provides the necessary administrative support for managing the remaining portfolios of Société Innovatech du Grand Montréal and Société Innovatech Régions ressources. The Corporation also provides administrative support to FIER Partners, L.P. In accordance with Order in Council 1027-2006, on November 8, 2006, Investissement Québec acquired the assets and since then assumed the debts and obligations of Innovation-Papier (INNO-PAP), which was dissolved on December 27, 2006.

7. Based on business forecasts.

STRATEGY 3: IMPROVING PERFORMANCE

FINANCIAL PERFORMANCE: SELF-FINANCING AND COST CONTROL

In its 2004-2007 business plan, the Corporation set annual targets to progressively reduce government contributions to its administrative expenses to the point where it would become self-financing, forecast for 2008-2009. Administrative expenses have been self-financed since 2005-2006.

The Corporation closely manages the risks associated with its financing operations and scales its service prices to the level of risk exposure. It has a risk monitoring system that identifies portfolio businesses that are in difficulty and, where possible, it intervenes quickly to turn such businesses around or revitalize them. In addition, it set up a credit risk management team last year. The team began to assess the portfolio's risk profile, particularly in regard to concentration.

Last, for the second consecutive year, the Corporation used a new type of loan for major research and development projects which is based on sharing risks with the businesses it finances through the royalties it receives from them.

ECONOMIC PERFORMANCE: THE CORPORATION'S PROFITABILITY

Each year, Investissement Québec evaluates the economic impact of the projects it finances, as well as the impact of the operations of the companies in its portfolio. The Corporation obtains its cost-benefit ratio by comparing the portion of the economic impact it is responsible for with the cost it represents for its single shareholder, the Government of Québec. A ratio higher than 1 confirms its profitability.

In 2006-2007, the value of the projects financed by the Corporation totalled $4.3 billion and the sales figures of its portfolio businesses were $33.2 billion, which represents for the Government of Québec tax and incidental tax revenues of $3.2 billion. Of this amount, Investissement Québec set $913.2 million as the portion attributable to its operations, with $150.5 million of that from financed projects and $762.7 million from its portfolio businesses. This is an increase over the previous year and is due to Investissement Québec's contribution to large-scale projects in the machinery and primary processing metals sectors. These industries generate greater economic benefits than the average for the other sectors.

Beyond that, the net costs to the Government of Québec decreased considerably during the year, shrinking from $136.0 million to $69.5 million due to the reduction in the provision for certain major files.

Since 1998, the annual valuation of Investissement Québec's profitability has always resulted in a cost-benefit ratio greater than 1. In fact, the overall ratio is 3.74/1. In other words, for each dollar of cost of the Corporation to the Government of Québec, the Government collected $3.74 in tax and incidental tax revenues. This means that Investissement Québec not only fulfilled the role of financial partner to businesses, it also contributed to Québec's economic development—and enriched it.

The cost-benefit ratio for 2006-2007 was 13.14/1. The increase in tax and incidental tax revenues attributable to the Corporation combined with the reduction in net costs to the Government of Québec explains this result. In fact, the simultaneous change in these two factors had a multiplier effect on the Corporation's cost-benefit ratio.

Detailed information on the valuation method, the data used to simulate economic impact and their results appear on page 94.

PROFITABILITY OF THE CORPORATION'S OPERATIONS

	2006-2007	2005-2006
Tax and incidental tax revenues attributable to the Corporation's operations:		
Related to the implementation of projects financed ($M)	150.5	78.5
Related to the sales of the companies in the portfolio ($M) [1]	762.7	664.6
Total revenues attributable ($M)	913.2	743.1
Net costs to the government ($M)	69.5	136.0
Investissement Québec's cost-benefit ratio	13.14/1	5.46/1

(1) The valuation focused on companies whose fiscal years were between July 1, 2005 and June 30, 2006 for fiscal 2006-2007, and between July 1, 2004 and June 30, 2005 for fiscal 2005-2006.

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STRATEGY 4: OPTIMIZING CLIENT SERVICE

SATISFYING CLIENTS AND PARTNERS

Quality of service is of prime importance to Investissement Québec. Since its creation, it has polled its clients and partners each year to determine their satisfaction level in five areas: courtesy, professionalism and qualification, adaptability and flexibility, processing time, and accessibility and visibility. The survey measures the success of the Corporation's effort to improve the quality of its services.

Between April 2006 and March 2007, the Corporation surveyed 690 businesses that had used its financial services, and 261 financial partners. The response rate for each totalled 52% and 63% respectively.

The client business general satisfaction rate is 94%. Ninety-six percent of financial partners, three percentage points higher than the previous year, were also satisfied with the Corporation's services.

SATISFACTION RATES [1]

	2006-2007		2005-2006	
	Client Businesses	Financial Partners	Client Businesses	Financial Partners
General satisfaction [2]	94%	96%	94%	93%
Courtesy	94%	96%	95%	94%
Professionalism and qualification	97%	98%	97%	95%
Adaptability and flexibility	94%	97%	94%	93%
Processing time	93%	91%	93%	83%
Accessibility and visibility	91%	97%	90%	93%

(1) Percentage of respondents who were quite satisfied to very satisfied
(2) Satisfaction with all aspects evaluated

The Corporation also surveyed 468 businesses that benefit from tax measures. The response rate was 42%. The service quality assessment included courtesy, professionalism and qualification, processing time, accessibility and visibility.

The overall satisfaction level of these businesses was 91%, a major increase compared with the rate of 83% last year. Part of this rise was due to a reorganization of the procedure for processing interim tax credit financing files.

IMPROVING BUSINESS PROCESSES

To optimize customer service quality, the Corporation maintained its efforts to improve its business processes. After completing the reorganization of the processes related to interim tax credit financing, it focused on the loan guarantee award process, which is core to its service offering. This initiative, which involved employees from every level of the organization, was a great success. Solutions were put forward to reduce the processing time for applications and enhance service quality. The new processes will be implemented gradually over the next fiscal year.

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ELECTRONIC SERVICE DELIVERY

A new Internet service named *My Account* was implemented in accordance with government guidelines on electronic service delivery. With this free and secure online service, the Corporation's clients can now consult their financial files, view and download their invoices, access their transaction statements and complete certain financing applications.

ETHICS AND CUSTOMER SERVICE

The directions the Corporation favours in its relationships with clients and partners are contained in *Our Commitment to Clients* statement and its *Complaints Handling Policy*, which were adopted in November 2005, and its Code of Ethics, which was republished in July 2006. During the year just ended, all employees took part in training on the theme of *"Our Ethics, Our Values, Our Clients, My Commitment"* that allowed them to take ownership of and appropriately apply the principles set out in the three documents.

The Corporation established a simple and uniform complaints management mechanism to facilitate processing and improve service quality. It received two messages of dissatisfaction in 2006-2007 that were handled attentively within the required timeframe.

STAFF ENGAGEMENT

Following a survey on employee satisfaction carried out last year, recognition became one of the Corporation's priorities. In order to establish a culture of recognition within the organization, awareness raising workshops were organized for all employees. Groups of employees from various departments received training to promote sharing among the units and job types. In all, 25 workshops were held. They were led by four professionally trained employees and supervised by a researcher from Université Laval. Almost all employees took part in the activity, which was a glowing success. Management also participated in a specific activity focusing on recognition.

DEVELOPING SKILLS

For some years now, the Corporation has taken a keen interest in developing staff skills. The change in direction implemented last year with regard to training takes into account the real needs of the organization in this area. The training priorities for 2006-2007 now reflect the issues facing each department along with its particular needs.

In 2006-2007, the Corporation devoted 3% of payroll to employee training and professional development. A significant number of employees followed courses in finance, accounting, information technology and communications. Training was also provided to support the implementation of new business processes. Additionally, the Corporation provided reference material to employees to assist them in upgrading their skills.

The groundwork was laid to prepare for implementing a succession and skills management program during the upcoming fiscal year. This program should facilitate successor transition, maintain the special skills of employees who leave the Corporation and promote the mobility of staff within the organization.

OCCUPATIONAL HEALTH POLICY

As part of its occupational health policy, the Corporation organized activities to promote the physical and psychological health of its staff, well-being and job safety. On these subjects, it provided mainly training and awareness raising activities.

IMAGINE.
PROMOTING GROUP ENTREPRENEURSHIP.

INNOVATING. CREATING.

LA RESSOURCERIE DE LÉVIS

Founded in December 2001, La Ressourcerie de Lévis is a social economy enterprise with the mission of offering all households in the region quality refurbished goods such as clothes and furniture. In addition to recycling, La Ressourcerie assists in the social and vocational integration of persons with difficulties re-entering the job market. With sales on the rise, the business is now thriving.

La Ressourcerie obtained a loan guarantee from Investissement Québec to expand its collection and sales centre.

GILBERT DUCLOS

MICHELINE LEBEAU, GENERAL MANAGER

MANAGEMENT

ORGANIZATION CHART

BOARD OF DIRECTORS IQ IMMIGRANTS INVESTISSEURS INC.
BOARD OF DIRECTORS INVESTISSEMENT QUÉBEC
BOARD OF DIRECTORS IQ FIER INC.
PRESIDENT AND CEO JACQUES DAOUST
DIRECTOR INTERNAL AUDIT NANCY BÉLAND
EXECUTIVE VICE-PRESIDENT, CORPORATE AFFAIRS AND CENTRAL SECRETARY PIERRE B. LAFRENIÈRE
EXECUTIVE VICE-PRESIDENT, GENERAL ADMINISTRATION ANDRÉ CÔTÉ
ACTING DIRECTOR, LEGAL AFFAIRS PIERRE B. LAFRENIÈRE
VICE-PRESIDENT, [illegible] MICHEL DESCHAMPS
VICE-PRESIDENT, INVESTMENT [illegible] JEAN-SÉBASTIEN LAMOUREUX
VICE-PRESIDENT, HUMAN RESOURCES RODRIGUE BRILLANT
DIRECTOR PRODUCT DEVELOPMENT JOHANNE PILON
DIRECTOR REALIZATION OF ASSETS SERGE CÔTÉ
DIRECTOR CORPORATE AFFAIRS VALÉRIE PAQUET
DIRECTOR CREDIT POLICY DEVELOPMENT YVON LECLERC
ACTING DIRECTOR RECOVERY SERGE CÔTÉ
DIRECTOR RISK MANAGEMENT AND FINANCIAL ENGINEERING PHUOC-LIEING HUYNH
VICE-PRESIDENT, GOVERNMENT MANDATES LUCIEN BIRON
DIRECTOR SPECIALIZED FINANCING CLAUDE PROULX
DIRECTOR TAX MEASURES DENIS VALOIS
VICE-PRESIDENT, REGIONAL OPERATIONS CLAUDE DULUDE
VICE-PRESIDENT, [illegible] CLAUDE CAMBURNEAU
DIRECTOR, WEST ISLAND OF MONTRÉAL MARC LANGLOIS
DIRECTOR, EAST ISLAND OF MONTRÉAL MICHEL DESILETS
REGIONAL DIRECTOR, NORTHWEST QUÉBEC JEAN LAVEAU
REGIONAL DIRECTOR, [illegible] GILLES LAPIERRE
REGIONAL DIRECTOR, [illegible] GILLES ARSSON
REGIONAL DIRECTOR, [illegible] MICHEL BOURGAULT
DIRECTOR, [illegible] JEAN-MARC DESJARDINS
DIRECTOR, FINANCE AND [illegible] RENAUD GILBERT
DIRECTOR, INFORMATION SYSTEMS LYNN LADOUCEUR
DIRECTOR, PERFORMANCE APPROVAL DANIELLE VYVIER
DIRECTOR, SPECIAL MANDATES STELLA PAILLÉ
DIRECTOR, [illegible] JEAN-CHARLES VINCENT
VICE-PRESIDENT, INTERNATIONAL AFFAIRS LOUISE MORIN
DIRECTOR, EUROPE YVES GOUGEON
DIRECTOR, THE AMERICAS HENRI BOUQUIÈRES
DIRECTOR, ASIA LOUIS P. GRANGER
DIRECTOR, STRATEGIC [illegible] MARIE-FRANCE DUBUC

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DIRECTOR TAX MEASURES DENIS VALOIS
VICE-PRESIDENT REGIONAL OPERATIONS CLAUDE DULUDE
VICE-PRESIDENT COOPERATIVES AND OTHER SOCIAL ECONOMY ENTERPRISES CLAUDE CARBONNEAU
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DIRECTOR EAST ISLAND OF MONTREAL MICHEL DESILETS
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REGIONAL DIRECTOR NORTHEAST QUEBEC GILLES LAPIERRE
REGIONAL DIRECTOR SOUTHWEST QUEBEC GILLES BRISSON
REGIONAL DIRECTOR SOUTHEAST QUEBEC MICHEL BOURGAULT
DIRECTOR COMMUNICATIONS, MARKETING AND GOVERNMENT RELATIONS JEAN-MARC DESSUREAULT
DIRECTOR FINANCE AND TREASURY RENAUD GILBERT
DIRECTOR INFORMATION SYSTEMS LYNN LADOUCEUR
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DIRECTOR STRATEGIC INFORMATION MARIE-FRANCE DUBUC

NEW RULES OF GOVERNANCE

GOVERNANCE OF STATE-OWNED ENTERPRISES

On December 13, 2006, the National Assembly passed the *Act respecting the governance of state-owned enterprises and amending various legislative provisions*; in this section it is referred to as the Act. It follows up on the April 6, 2006 tabling of a policy statement intended as a major overhaul of the rules governing about 20 corporations that are all managed by boards of directors. The Act, which deals specifically with state-owned financial and commercial corporations, including Investissement Québec, introduces new rules of governance. Overall, it establishes a distinction between the responsibilities of boards of directors and senior management in state-owned enterprises, and strengthens the role of the boards of directors by setting new rules for their composition, functioning and responsibilities.

The outcome is that the positions of chair of the board of directors and of CEO are to be separate positions. CEOs will from now on be appointed by government, on recommendation by the board of directors. Their term is to be five years, and may be renewable based on performance. Selecting members of boards of directors is to be based on new criteria, which include two-thirds of them being independent. Furthermore, the term of members on a board of directors is to be four years. The terms may be renewed, but may never exceed ten years. The composition of the board of directors of the Corporation is to come up for review accordingly in five years, to include specifically as many women as men.

The board of directors must set up three committees: an Audit Committee, a Governance and Ethics Committee and a Human Resources Committee. These committees must be made up of independent members. The Board of Directors of the Corporation is already assisted in its duties by committees that address these issues.

The Act also includes rules for state-owned enterprises' strategic plans. It empowers ministers responsible for the incorporating act of a state-owned enterprise with the authority to issue directives regarding the directions and objectives they must pursue. The Corporation took these rules into account in drawing up its strategic plan for 2007-2010. The plan was adopted by the Board of Directors and presented to the government for approval.

The Act also imposes new rules for the disclosure and publication of information, specifically in annual reports. For this reason, the next annual report of Investissement Québec must include:

- A summary of the reports submitted to the Board by the Governance and Ethics Committee, the Audit Committee and the Human Resources Committee.
- A statement of the results of applying the benchmarking measures adopted by the Board of Directors.
- A section covering the governance of the Corporation and identifying the members of the Board of Directors.
- Information concerning the remuneration and benefits paid to each of the members of the Board of Directors of the Corporation, and to the directors of its subsidiaries, as well as information concerning the fees paid to the external auditor.

The Act increases the means of monitoring and controlling state-owned enterprises without, however, reducing their autonomy.

SUSTAINABLE DEVELOPMENT

The National Assembly passed the *Sustainable Development Act* on April 13, 2006; in this section, it is referred to as the Act. Sustainable development refers to development that meets the current needs of a population without compromising the ability of future generations to fulfil their own needs. Sustainable development is based on a long term vision that takes into account the inextricable nature of the relationships between environmental, social and economic development activities.

In the spirit of the Act, the Corporation is committed over the upcoming fiscal year to drawing up a sustainable development action plan. In response to the issue, the Corporation has already instituted some measures such as recycling paper, plastic and glass.

The action plan will require the Corporation to report annually on the initiatives it has carried out in applying the principles of the Act. The Corporation will follow the Global Reporting Initiative (GRI) index standards and the principles set out in the Act. The Governance and Ethics Committee is to be responsible for applying the standards.

First, the Corporation will draw up a sustainable development policy, taking into account the parameters set out in the overall action plan announced by the Government of Québec. To do so, it will use the tools and recommendations provided to it. It will also develop custom training material on sustainable development.

Second, to secure the commitment of all staff members to the initiative, the Corporation will create a steering committee of representatives from all the job categories. Moreover, communications and information capsules will heighten employee and client awareness of sustainable development.

CORPORATE GOVERNANCE AND ORGANIZATIONAL STRUCTURE

BOARDS OF DIRECTORS

INVESTISSEMENT QUÉBEC

In addition to the President and Chief Executive Officer, the Board of Directors of Investissement Québec is made up of representatives from the business community, cooperatives, unions and the government. Its role is to ensure that Investissement Québec is well managed in the best interest of its clients, personnel, financial and institutional partners and the government by applying the principles of sound management and corporate governance, and using tools designed in cooperation with management such as:

- The three-year business plan;
- The annual action plan;
- The annual budget;
- The periodic operating reports as well as the financial statements presenting the results compared with the objectives set;
- The annual report, to fulfil the Corporation's accountability and performance measurement obligation.

In its duties, the Board is assisted by an Audit Committee that monitors the quality of financial information and internal controls and by a Human Resources Committee that oversees management of Investissement Québec's human resources. The Governance and Ethics Committee, whose members are appointed by the Board, is responsible for reviewing any issue related to interpreting and enforcing the Code of Ethics of Employees of Investissement Québec and its subsidiaries and the Code of Ethics of the Board of Directors of Investissement Québec, and reporting on them to the Board. The Board has also created a Credit Committee with the authority to recommend, authorize and modify financing files.

Assisted by management, the Board establishes the principles of governance between Investissement Québec and its subsidiaries, including IQ Immigrants Investisseurs inc. and IQ FIER inc.

The Committee held nine meetings for the year just ended.

IQ IMMIGRANTS INVESTISSEURS INC.

The Board of Directors of IQ Immigrants Investisseurs inc. oversees the effective management of the operations of this subsidiary. Its mission is to receive and manage capital from immigrant investors and administer a financial assistance program for businesses from the investment income, in partnership with financial intermediaries. Its board of directors is chaired by Jacques Daoust, President and Chief Executive Officer of Investissement Québec and includes Yves Lafrance, Associate Deputy Minister for State-owned Enterprises and Economic Projects, Ministère des Finances, and a member of the Board of Directors of Investissement Québec, Pierre-André Paré, FCA, Jean Larivée and Gilles Montplaisir, Legal Counsel, Investissement Québec and Secretary of the Board. Jean-Sébastien Lamoureux, Vice-President, Investissement Québec Subsidiaries, is responsible for managing IQ Immigrants Investisseurs inc.

IQ FIER INC.

IQ FIER inc. was created following implementation of the FIER, announced by the Government in its 2004-2005 budget. The mandate of this subsidiary is to set the parameters by which it invests in the FIER. The Board of Directors of IQ FIER inc. is chaired by Jacques Daoust, President and Chief Executive Officer of Investissement Québec and includes Jean Larivée, Jean-Sébastien Lamoureux, Vice-President, Investissement Québec Subsidiaries, Luc Chabot, Venture Capital Consultant, and Mathilde Carrière, attorney, from the firm Fraser Milner. Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs and Secretary General, is the Secretary and Gilles Montplaisir, Legal Counsel, Investissement Québec, is Assistant Secretary.

MEMBERS OF THE BOARD OF DIRECTORS OF INVESTISSEMENT QUÉBEC

Léopold Beaulieu

President and Chief Executive Officer,
Fondaction, Fonds de développement
de la Confédération des Syndicats nationaux pour
la coopération et l'emploi

Chair of the Advisory Committee
on the Social Economy

Vice-Chair of the Board of Directors
of Investissement Québec

Chair of the Audit Committee
of Investissement Québec

Chair of the Human Resources Committee
of Investissement Québec

Jacques Daoust

President and Chief Executive Officer
of Investissement Québec

Chair of the Board of Investissement Québec

Chair of the Board of IQ Immigrants
Investisseurs inc.

Chair of the Board of IQ FIER inc.

Observer to the Audit Committee
of Investissement Québec

Observer to the Human Resources Committee
of Investissement Québec

Member of the Governance and Ethics Committee of
Investissement Québec

Gilles Demers

Deputy Minister, Ministère du Développement
économique, de l'Innovation et de l'Exportation

Mélanie Kau

President, Mobilia Interiors

Yves Lafrance

Assistant Deputy Minister for State-owned
Enterprises and Economic Projects,
Ministère des Finances

Member of the Audit Committee
of Investissement Québec

Member of the Human Resources Committee
of Investissement Québec

Member of the Board of Directors
of IQ Immigrants Investisseurs inc.

Rosemonde Mandeville

President and Chief Executive Officer,
Biophage Pharma

René Roy

General Secretary, Fédération des travailleurs
et travailleuses du Québec (FTQ)

Secretary of the Board of Directors
of the Fonds de solidarité FTQ

Member of the Audit Committee
of Investissement Québec

Member of the Human Resources Committee
of Investissement Québec

Michel R. St-Pierre

Deputy Minister, Ministère de l'Agriculture,
des Pêcheries et de l'Alimentation

Chair of the Governance and Ethics Committee
of Investissement Québec

COMMITTEES

In order to comply with the *Act respecting the governance of state-owned enterprises and amending various legislative provisions*, on February 27, 2007, the Board of Directors disbanded the Ethics Committee of Employees of Investissement Québec and its Subsidiaries, the Ethics Committee of the Board of Directors of Investissement Québec and the Audit and Human Resources Committee and set up a Governance and Ethics Committee, an Audit Committee and a Human Resources Committee. The three committees report to the Board of Directors of Investissement Québec.

A number of other committees exist within the Corporation, the main being the Credit Committee and the Management Committee. Both are made up of members of the Corporation's senior management.

GOVERNANCE AND ETHICS COMMITTEE

Chaired by Michel R. St-Pierre, Deputy Minister, Ministère de l'Agriculture, des Pêcheries et de l'Alimentation and a member of the Board of Directors of Investissement Québec, the Committee is made up of Jacques Daoust, President and Chief Executive Officer of Investissement Québec, Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs, and General Secretary, and André Côté, Executive Vice-President, General Administration. The Committee did not meet between its inception in February 2007 and the end of the fiscal year.

The Committee now fulfils the principal duties of the former Ethics Committee of Employees of Investissement Québec and its Subsidiaries and the Ethics Committee of the Board of Directors of Investissement Québec.

The Ethics Committee of Employees of Investissement Québec was made up of three members appointed by the Board of Directors of Investissement Québec: Michel R. St-Pierre, Chair of the Committee, Deputy Minister, Ministère de l'Agriculture, des Pêcheries et de l'Alimentation and a member of the Board of Directors of Investissement Québec, Jacques Daoust, President and Chief Executive Officer of Investissement Québec and Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs, and General Secretary. It held three meetings before being disbanded. To their knowledge, the members uncovered no breaches of the Code of Ethics of Employees. The Ethics Committee of the Board of Directors of Investissement Québec was chaired by André Côté, Executive Vice-President, General Administration and included two other members appointed by the Corporation's Board of Directors: Michel R. St-Pierre, member of the Board of Directors of Investissement Québec, and Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs, and General Secretary. No breach of the Code of Ethics of the Board of Directors was referred to the Committee during the year.

AUDIT COMMITTEE

Chaired by Léopold Beaulieu, Vice-Chair of the Board of Directors of Investissement Québec, the Committee includes Yves Lafrance, Associate Deputy Minister for State-owned Enterprises and Economic Projects, Ministère des Finances, and a member of the Board of Directors of Investissement Québec and René Roy, Secretary General, Fédération des travailleurs et travailleuses du Québec and a member of the Board of Directors of Investissement Québec. Jacques Daoust, President and Chief Executive Officer of Investissement Québec, attends the Committee's meetings as an observer. The Committee met once between its inception in February 2007 and the end of the fiscal year.

The Committee now fulfils the principal duties of the former Audit and Human Resources Committee that was made up of the same members and met four times before being disbanded.

HUMAN RESOURCES COMMITTEE

Chaired by Léopold Beaulieu, Vice-Chair of the Board of Directors of Investissement Québec, the Committee includes Yves Lafrance, Associate Deputy Minister for State-owned Enterprises and Economic Projects, Ministère des finances, and a member of the Board of Directors of Investissement Québec and René Roy, Secretary General, Fédération des travailleurs et travailleuses du Québec, and a member of the Board of Directors of Investissement Québec. Jacques Daoust, President and Chief Executive Officer of Investissement Québec, attends the Committee's meetings as an observer. The Committee did not meet between its inception in February 2007 and the end of that fiscal year.

The Committee now fulfils the principal human resources-related duties of the former Audit and Human Resources Committee that was made up of the same members and met four times before being disbanded.

CREDIT COMMITTEE

The Credit Committee makes recommendations on, authorizes and gives notification of the financing files of the Corporation. In accordance with the by-laws, the Committee is made up of Jacques Daoust, President and Chief Executive Officer of Investissement Québec; Claude Dulude, Vice-President, Regional Operations; Lucien Biron, Vice-President, Government Mandates; Michel Deschamps, Vice-President, Credit and Risk Management; and André Côté, Executive Vice-President, General Administration. It is chaired by Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs and General Secretary. Mr. Lafrenière is also the Committee's Secretary, with Pierre Chartrand, as Assistant Secretary. The Committee held 24 meetings in 2006-2007.

MANAGEMENT COMMITTEE

The duties of the Management Committee are to recommend approval of the business plan to the Board of Directors and monitor the action plan, decide on the initiatives presented in such plans, make recommendations to the Board of Directors or approve the Corporation's policies and guidelines, assess the results and monitor the Corporation's performance. It is made up of ten members: Jacques Daoust, President and Chief Executive Officer of Investissement Québec; André Côté, Executive Vice-President, General Administration, Pierre B. Lafrenière, Executive Vice-President, Corporate Affairs, and General Secretary; Claude Dulude, Vice-President, Regional Operations; Louise Morin, Vice-President, International Affairs; Rodrigue Brillant, Vice-President, Human Resources; Lucien Biron, Vice-President, Government Mandates; Claude Carbonneau, Vice-President, Cooperatives and Other Social Economy Enterprises; Jean-Sébastien Larnoureux, Vice-President, Investissement Québec Subsidiaries; and Michel Deschamps, Vice-President, Credit and Risk Management. The Committee met 12 times during the period.

HUMAN RESOURCES

WORKFORCE

The Corporation's workforce underwent no significant change during the year. The turnover rate was 5.5% with the departures of 21 employees, 7 of whom retired.

CHANGES IN WORKFORCE [1]

Job Category	March 31, 2007	March 31, 2006
Management	39	36
Professional	191	192
Legal	9	9
Technical	74	70
Clerical	72	75
TOTAL	385	382

(1) Includes only regular employees.

PERFORMANCE ASSESSMENT METHOD

According to the performance assessment method in effect, all the Corporation's employees, regardless of their position, are reviewed regularly based on performance objectives set at the beginning of the year. Mid-year review meetings between employees and managers create conditions that promote the achievement of the targeted objectives. The incentive compensation policy linked to this method requires all salary increases to be based on meeting or exceeding objectives.

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MANAGEMENT TOOLS

THREE-YEAR BUSINESS PLAN

The Corporation followed a business plan for the period 2004-2007 that was approved by the government in 2004. The plan sets out strategies, actions and performance objectives, as well as the government's financial contribution to the Corporation's activities. In accordance with the *Act respecting the governance of state-owned enterprises and amending various legislative provisions* (passed in December 2006), the three-year business plan was renamed the "strategic plan."

The Board of Directors approved the 2007-2010 strategic plan during the year. It is currently pending approval by the Government of Québec.

ACTION PLAN

To implement its three-year business plan, the Corporation each year draws up and has the Board of Directors approve an action plan that sets out its objectives, along with the various initiatives it plans to achieve them. It circulates this action plan to all employees at the start of the fiscal year.

OPERATIONS MONITORING

The Corporation uses various tools to monitor its operations, results and financial commitments and to support its decision-making process.

Monthly operating reports are available to all staff members on the Corporation's intranet site. These reports provide detailed information on all programs administered and activities carried out by the Corporation, and include client satisfaction, human, financial and material resources management, and summary financial results.

A quarterly report summarizing the results of the main indicators in the Corporation's annual action plan is submitted to the Management Committee and the Board of Directors with a performance assessment. A progress report on the various activities set out in the action plan is also prepared on a quarterly basis and submitted to the Management Committee. The report is circulated to all employees through the Corporation's intranet site.

A quarterly financial report including the balance sheet and statement of results for the period, financial performance indicators, and results by administrative unit is prepared for the Management Committee, the Audit Committee and the Board of Directors.

RISK MANAGEMENT

The Corporation uses several tools to manage the risks it is exposed to because of the nature of its activities. The *Act respecting the governance of state-owned enterprises and amending various legislative provisions* reinforces the Corporation's directions in this respect by requiring state-owned enterprises to implement a risk management process. The process must include any risk to which the Corporation might be exposed. During the upcoming fiscal year, the Corporation will institute a series of measures strengthening risk management.

The pyramid below illustrates the Corporation's main risk areas.

RISK PROFILE

Economic conditions, competition and regulations all constitute sources of risks inherent in Investissement Québec's activities over which it has little control or influence.

However, the Corporation has many tools for managing risks over which it does have control, such as strategic, reputation, operational, credit, credit concentration, market and liquidity risks. The Corporation reports on the management of such risks to the Audit Committee each year in accordance with the Management Committee's three-year action plan.

STRATEGIC RISK

Strategic risk is the risk of losses or of costs related to the Corporation's strategic plan, which includes its mission, vision, issues, values, human resources and skills statements.

The Board of Directors and the Management Committee oversee the smooth functioning of Investissement Québec in the best interests of its clients, partners, staff and the government. The principles of sound management and corporate governance are reinforced by the management tools the Corporation uses, by the systematic analysis of the Corporation's economic impact and by client and partner satisfaction surveys, as well as morale surveys.

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REPUTATION RISK

Reputation risk is the risk that the Corporation's image and credibility might be damaged, as well as the risk that the Corporation might not fulfil its mission or comply with its directions.

The Corporation has several methods of managing reputation risk, including a communications plan and the tools it already uses to manage its strategic and operational risks.

In addition, the Corporation takes care to maintain excellent relationships with its clients and partners, a duty it has entrusted to its Department of Business Development and Service Quality. It also has a *Commitment to Clients* statement, a *Complaints Handling Policy* and a *Code of Ethics* for its employees.

OPERATIONAL RISK

Operational risk is the risk that the Corporation might incur a loss due to human error or to the inadequacy or failure of systems or processes. The Corporation has several methods for managing this risk, such as establishing and monitoring information processing, financing operations and human resources management processes. Specifically, these measures cover:

- Delegation of powers and separation of functions;
- Prompt production of reliable management information, such as operating reports;
- Physical and logical security of computer systems and data;
- Implementation of a redundant and reliable network with management and alert tools;
- Performance of an external audit of information security every two years;
- Activity recovery planning processes;
- Employee qualification and training;
- Insurance coverage and appropriate protection of material assets and offices.

CREDIT RISK

The Corporation's credit risk is primarily associated with losses that might be caused by or incurred due to the failure of a third party to meet its financial commitments. Accordingly, it makes use of methods that promote informed decision-making when it studies and authorizes financing operations. Financing operations are systematically monitored. This is carried out by obtaining and analyzing the annual financial statements of each business, producing an annual progress report on these businesses, reviewing the risk category on a quarterly basis to determine provisions for losses, and reviewing the guarantees for problem accounts.

The Corporation employs a system for classifying companies according to the financial risk they represent. This system is used to make an initial risk assessment and match pricing to risk level, assist in tracking changes in financing operations and monitor companies in difficulty.

In addition, during the year, the Corporation set up a Department of Risk Management and Financial Engineering and began to implement an integrated risk management system.

CREDIT CONCENTRATION RISK

Credit concentration risk is the probability that a significant portion of the financing operations outstanding might become concentrated in a subgroup of the Corporation's portfolio. Such concentration could render the Corporation vulnerable to any difficulties experienced by a client business, an industry, a particular region or a financial product. The Corporation has various tools for managing this type of risk.

MARKET RISK

Market risk is the risk the Corporation faces if interest rates, exchange rates and prices of shares and options it holds move unfavourably and result in losses. In managing interest rate risk, the Corporation may use the strategy of a natural matching of its assets and liabilities, namely by contracting its loans appropriately. In addition, it uses synthetic derivatives traded on capital markets to supplement the matching of interest rate structures to its assets and liabilities. This operation is supported by an internal interest rate risk management policy.

In January 2007, the Corporation began reviewing its market risk management method according to the *Act respecting the governance of state-owned enterprise and amending various legislative provisions*.

LIQUIDITY RISK

Liquidity risk is associated with the difficulties that the Corporation might experience in obtaining capital at a reasonable cost due to a lack of available capital on the market, one-time events or market conditions. Liquidity risk also results from any difficulties the Corporation might encounter in liquidating, where applicable, certain assets acquired in the normal course of business.

Managing this risk is supported by an overall financing policy. The Corporation maintains a wide range of financing sources and has a borrowing program for both short- and long-term loans from Québec's Ministère des Finances as administrator of the Financing Fund.

Short-term borrowing agreements have also been concluded with financial institutions. The amounts authorized under these programs and agreements are designed to cover all contingencies.

IMAGINE. SUPPORTING EXPORT ACTIVITIES.

INNOVATING. CREATING.

LEPAGE MILLWORK

Lepage Millwork has been manufacturing doors and windows in Rivière-du-Loup since 1950. By reorienting itself into upmarket high value-added products, the company has been able to penetrate the Canadian and United States markets—so successfully that sales have soared 175% since 2003 and U.S. exports have surged from 3% to 42%. The company was rewarded at the 2006 Les Mercuriades Competition for its contribution to economic and regional development.

Investissement Québec awarded the company loan guarantees that have allowed it to invest $3.4 million and increase its workforce to 200.

GILBERT DUCLOS

GUY BONNEVILLE, PRESIDENT

FINANCIAL INFORMATION

FINANCIAL REVIEW BY MANAGEMENT

GENERAL COMMENTS

The Corporation's consolidated financial statements include the financial statements of its wholly owned subsidiaries: IQ Immigrants Investisseurs inc., IQ FIER inc., 9037-6179 Québec inc., 9071-2076 Québec inc., 9109-3294 Québec inc. and La Financière du Québec. These statements consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of retained earnings, the consolidated statement of cash flows and the notes to consolidated financial statements.

The assets and guarantees under management of the Corporation amounted to $6.8 billion as at March 31, 2007, up 7% from $6.3 billion as at March 31, 2006.

The financing operations included in the Corporation's portfolio fall into three major categories: operations for which losses are assumed by the Government of Québec, operations for which losses are assumed equally by the government and the Corporation, and operations for which losses are assumed entirely by the Corporation. The portion of the portfolio for which losses are assumed by the government and the portion for which losses are assumed by the Corporation are presented separately in the notes to financial statements.

BALANCE SHEET

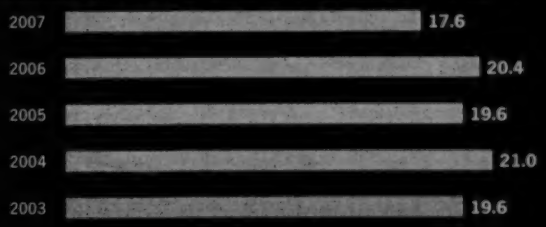
The Corporation's total assets as at March 31, 2007 stood at $4.5 billion, up 8% from total assets as at March 31, 2006. This increase resulted mainly from greater investments from IQ Immigrants Investisseurs inc. and IQ FIER inc., which rose from $2.3 billion as at March 31, 2006 to $2.7 billion as at March 31, 2007.

Moreover, the net loan guarantee balance increased to $2.3 billion from $2.2 billion for the previous year.

The accumulated provision for losses amounted to $714.7 million as at March 31, 2007. Expressed as a percentage of the balance of the Corporation's financing operations portfolio, this provision declined compared with the previous year due to an improved risk profile.

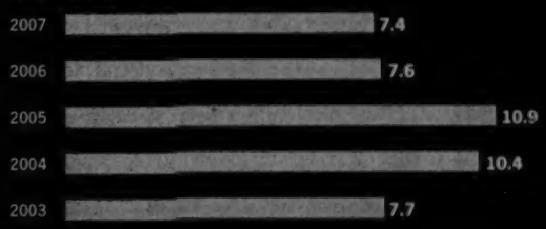
The following table summarizes the past five years:

ACCUMULATED PROVISION FOR LOSSES AS % OF PORTFOLIO



Changes in the debt/equity ratio, representing the ratio of the Corporation's total short- and long-term debt over equity, are detailed as follows:

DEBT/EQUITY RATIO



Moreover, the ratio of equity over net value of the financing operations portfolio for which losses are assumed by the Corporation increased from 1.95 as at March 31, 2006 to 2.03 as at March 31, 2007, a reflection of the Corporation's sound capitalization with respect to the risk for which it assumes the losses.

STATEMENT OF INCOME

The Corporation posted net income of $53.5 million for the year ended March 31, 2007 compared with $176.8 million for the previous year. This decrease was due in part to a $133.0 million extraordinary gain on disposal of shares that occurred in fiscal 2005-2006.

The expense for the provision for losses assumed by the Corporation amounted to $3.4 million (1% of the average portfolio) compared with $7.7 million (2.4% of the average portfolio) in 2005-2006. The Corporation had anticipated an expense of $12.9 million in its action plan. However, the financial position of client companies was significantly better than expected.

Administrative expenses totalled $47.6 million. Expressed as a percentage of the average balance of the financing operations portfolio, changes in administrative expenses are summarized as follows:

ADMINISTRATIVE EXPENSES AS % OF AVERAGE PORTFOLIO

FINANCIAL STATEMENTS

DECLARATION OF RESPONSIBILITY FOR FINANCIAL INFORMATION

Management assumes responsibility for the preparation and presentation of the consolidated financial statements of Investissement Québec and for the other information disclosed in this Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The financial information appearing elsewhere in the Annual Report is consistent with that contained in the financial statements.

The Corporation's accounting system, as well as its internal controls and procedures, is designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The financial statements have been approved by the Board of Directors, which oversees management's responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee. This Committee meets with management and the auditor, reviews the financial statements and recommends their approval to the Board. The Audit Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations.

Jacques Daoust
President and Chief Executive Officer

André Côté
Executive Vice-President, General Administration

AUDITOR'S REPORT

To the National Assembly,

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2007, and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec City, May 25, 2007

CONSOLIDATED BALANCE SHEET

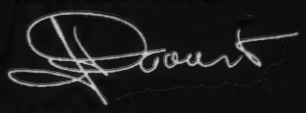
As at March 31 (in thousands of dollars)

	2007	2006
ASSETS		
Cash	9,440	-
Temporary investments (note 4)	17,492	9,608
Investments (note 5)	2,655,603	2,285,867
Loans, less accumulated provision for losses (notes 6 and 10)	770,827	737,395
Shares, less accumulated provision for losses (notes 7 and 10)	307,263	303,739
Units, less accumulated provision for losses (notes 8 and 10)	2,074	2,464
Accumulated provision for losses recoverable from the Government of Québec (note 10)	637,625	736,154
Other assets (note 11)	110,828	109,370
	4,511,152	4,184,597
LIABILITIES AND EQUITY		
Liabilities		
Bank overdraft	-	5,941
Short-term borrowings (note 12)	58,000	101,900
Long-term borrowings (note 13)	3,722,126	3,351,955
Due and accrued interest on borrowings from the Fonds de financement du gouvernement du Québec	18,904	15,374
Accumulated provision for losses on guarantees (notes 9 and 10)	172,924	229,377
Other liabilities (note 14)	29,813	24,182
	4,001,767	3,728,729
Equity		
Initial equity	32,944	32,944
Retained earnings	476,441	422,924
	509,385	455,868
	4,511,152	4,184,597
GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (NOTES 9 AND 10)	2,276,569	2,152,918

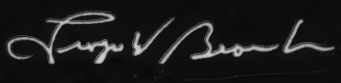
Financing and investment commitments (note 26)
Other commitments (note 27)
Contingencies (note 30)

The accompanying notes are an integral part of the financial statements.

For the Board of Directors,



Jacques Daoust
Chair of the Board



Léopold Beaulieu
Vice-Chair of the Board

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 (in thousands of dollars)

	2007	2006	2005
INTEREST INCOME			
Interest on loans	52,686	42,710	39,143
Interest on cash and temporary investments	1,145	648	197
Interest contributions from the Government of Quebec	45,095	33,480	27,420
	98,926	76,838	66,760
INTEREST EXPENSE (NOTE 15)	51,857	38,716	35,777
NET INTEREST INCOME	47,069	38,122	30,983
OTHER INCOME			
Interest on notes receivable from the Government of Quebec	95,215	79,056	54,345
Guarantee fees	22,073	19,696	14,636
Risk premiums			
Stock options (note 16)	2,720	3,523	2,409
Share in income and lump-sum premiums	9,132	4,862	3,814
Commitment fees	6,599	12,151	6,613
Other income (note 17)	14,905	144,405	26,984
	150,644	263,693	108,801
	197,713	301,815	139,784
PROVISION			
Provision for losses (note 10)	(4,899)	235,888	165,742
Provision for losses recoverable from the Government of Quebec (note 10)	8,253	(228,234)	(146,542)
	3,354	7,654	19,200
NON-INTEREST EXPENSES			
Financial contributions (note 18)	69,535	62,628	52,633
Financial contributions assumed by the Government of Quebec (note 18)	(19,666)	(25,162)	(31,665)
Fees to financial intermediaries	39,545	32,650	26,464
Administrative expenses (note 19)	47,639	43,350	40,276
Administration fees – Government of Quebec	–	–	(21,946)
Other expenses (note 20)	3,789	3,891	2,986
	140,842	117,357	68,748
NET INCOME	53,517	176,804	51,836

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

As at March 31 (in thousands of dollars)

	2007	2006
ASSETS		
Cash	9,440	–
Temporary investments (note 4)	17,492	9,608
Investments (note 5)	2,655,603	2,285,867
Loans, less accumulated provision for losses (notes 6 and 10)	770,827	737,395
Shares, less accumulated provision for losses (notes 7 and 10)	307,263	303,739
Units, less accumulated provision for losses (notes 8 and 10)	2,074	2,464
Accumulated provision for losses recoverable from the Government of Québec (note 10)	637,625	736,154
Other assets (note 11)	110,828	109,370
	4,511,152	4,184,597
LIABILITIES AND EQUITY		
Liabilities		
Bank overdraft	–	5,941
Short-term borrowings (note 12)	58,000	101,900
Long-term borrowings (note 13)	3,722,126	3,351,955
Due and accrued interest on borrowings from the Fonds de financement du gouvernement du Québec	18,904	15,374
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For the Board of Directors,

Jacques Daoust
Chair of the Board

Léopold Beaulieu
Vice-Chair of the Board

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For the year ended March 31 (in thousands of dollars)

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	140,842	117,357	68,748
NET INCOME	53,517	176,804	51,836

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31 (in thousands of dollars)

	2007	2006
Retained earnings, beginning of year	422,924	246,120
Net income	53,517	176,804
RETAINED EARNINGS, END OF YEAR	476,441	422,924

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 (in thousands of dollars)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	53,517	176,804	51,836
Adjustments for:			
Amortization of issuance expenses on long-term borrowings	719	719	713
Amortization of premium on long-term borrowings	(1,129)	(1,129)	(1,129)
Amortization of premiums and discounts on investments	(93,847)	(77,310)	(52,712)
Amortization of deferred fees to financial intermediaries	29,686	24,509	16,969
Gain on disposal of shares and units	(66)	(136,437)	(17,173)
Gain on disposal of investments	(1,338)	(1,165)	(887)
Change in unrealized loss in value of investments	2,608	515	–
Unrealized foreign exchange loss (gain) on investments	(149)	284	629
Unrealized loss resulting from change in fair value of derivative financial instruments	1,062	5,973	25
Provision for losses	(4,899)	235,888	165,742
Provision for losses recoverable from the Government of Quebec	8,253	(228,234)	(146,542)
Amortization of fixed assets and finite life intangible assets	864	800	859
Loss on disposal of fixed assets and finite life intangible assets	–	–	208
Share of income—Entity subject to significant influence,			
Canadair Quebec Capital S.E.N.C.	53	9	–
Changes in operating assets and liabilities (note 21)	634	25,071	(51,843)
	(4,032)	26,297	(33,305)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Net decrease (increase) in temporary investments with original maturities			
in excess of three months	–	397	(397)
Acquisition of investments	(551,935)	(584,410)	(740,816)
Disposal of investments	274,872	107,456	100,916
Net decrease (increase) in loans	9,069	(86,260)	7,968
Net decrease in shares	284	160,861	11,395
Net decrease (increase) in units	(46)	88	21,327
Premiums on derivative financial instruments	–	(5,386)	–
Additions to fixed assets and finite life intangible assets	(1,405)	(673)	(688)
Deferred fees to financial intermediaries	(30,942)	(32,057)	(37,872)
	(300,103)	(439,984)	(638,167)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in short-term borrowings	(43,900)	(134,000)	(135,000)
Long-term borrowings	587,300	567,067	821,200
Repayment of long-term borrowings	(216,000)	(24,000)	(13,200)
Deferred issuance expenses on long-term borrowings	–	–	(700)
	327,400	409,067	672,300
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,265	(4,620)	828
Cash and cash equivalents, beginning of year	3,667	8,287	7,459
CASH AND CASH EQUIVALENTS, END OF YEAR	26,932	3,667	8,287
CASH AND CASH EQUIVALENTS			
Cash	9,440	–	–
Temporary investments	17,492	9,608	9,191
Bank overdraft	–	(5,941)	(904)
	26,932	3,667	8,287
ADDITIONAL INFORMATION			
Interest paid	48,597	36,343	35,901

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31 (in thousands of dollars)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2007 (in thousands of dollars unless otherwise indicated)

1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a legal person established in the public interest incorporated under and governed by the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1). Under section 2 of its incorporating act, the Corporation is an agent of the State and is therefore not subject to income tax in Québec or Canada.

Investissement Québec's mission is to promote the growth of investment in Québec and thereby contribute to economic development and job creation. The Corporation centralizes and consolidates government initiatives to seek out, promote and support investment. The Corporation strives to foster domestic investment and attract investors from outside Québec by promoting Québec as a prime location for investment. Investissement Québec participates in the growth of businesses by facilitating research and development and export activities, among others. The Corporation also seeks to retain current investment by supporting companies in Québec. Furthermore, the Corporation provides companies, government departments and agencies, and state-owned corporations with a host of technical services, particularly with regard to financial analysis, financing arrangements and portfolio management. Investissement Québec administers all financial assistance programs developed by the government with respect to investment. The Corporation also administers the *Act respecting Québec business investment companies* (R.S.Q., c. S-29.1) and performs any mandates entrusted to it by the government under sections 28 and 29 of its incorporating act. It uses its financing operations to support Québec businesses or companies setting up operations in Québec, mainly by granting them loans or guaranteeing their financial commitments with financial institutions. It also administers the financial assistance programs stemming from the *Act respecting assistance for the development of cooperatives and non-profit legal persons* (R.S.Q., c. A-12.1). Under Bill 68, approved by the National Assembly on December 13, 2005, Investissement Québec acquired the rights and assumes the obligations of the Société de développement de la Zone de commerce international de Montréal à Mirabel, which has been dissolved. Under Order in Council 1027-2006, dated November 8, 2006, Investissement Québec acquired the rights and assumed the obligations of Innovation-Papier (INNO-PAP), which has been dissolved.

Section 46 of the *Act respecting Investissement Québec and La Financière du Québec* stipulates that the parent company shall formulate a strategic plan, which includes the operations of its subsidiaries, according to the form, content and intervals fixed by the Government of Québec. This plan was approved on September 22, 2004 (Order in Council 878-2004) and ends on March 31, 2007. Under section 47 of the same Act, this plan shall continue in force, however, until a new strategic plan is approved. A new plan was pending approval as at March 31, 2007. Under the 2004-2007 business plan, the Government of Québec contributes to the Corporation's financing through the repayment of certain financial contributions and losses on certain financing operations, according to the terms and conditions of the programs or Orders in Council under which they were set up, by paying the Corporation interest contributions on certain financing operations for which it repays losses, as well as by paying it fees.

2. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions, particularly in determining the fair value of investments. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

CONSOLIDATION

The consolidated financial statements comprise the financial statements of Investissement Québec and those of its wholly owned subsidiaries: IQ Immigrants Investisseurs inc., IQ FIER inc., 9037-6179 Québec inc., 9071-2076 Québec inc., 9109-3294 Québec inc. and La Financière du Québec. All the assets, liabilities, revenues and expenses of these subsidiaries have been included in these consolidated financial statements. The inter-company balances and transactions have been eliminated.

IQ FIER inc., a wholly owned subsidiary, qualifies as an investment company within the meaning of Canadian Institute of Chartered Accountants Accounting Guideline No. 18, *Investment Companies* (AcG-18). Under this guideline, investments are measured at fair value, that is, the amount of the consideration that would be agreed upon, at the date of the financial statements, in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The realizable value of the investments could vary significantly in relation to the fair value subsequent to changes in market conditions. AcG-18 further sets out the circumstances under which a parent company owning an investment company must account for the investment company's investments at fair value. Investissement Québec is the parent company of said investment company and meets the criteria for preserving the fair value accounting treatment for investments adopted by IQ FIER inc.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, temporary investments with original maturities of no later than three months and bank overdraft.

INVESTMENTS

Notes receivable from the Government of Québec are carried at cost and discounts upon acquisition are charged to income until maturity using the real-interest method.

The units of limited partnerships and unlisted shares of companies acting as general partner are accounted for at fair value, which is based on the audited financial statements of these entities which are measured at fair value. However, under certain contractual agreements, if aggregate net annual income less aggregate net annual losses is positive at the end of the performance waiver period of each agreement, the Corporation waives its share. Accordingly, the fair value of investments takes this clause into account. Furthermore, at any time during the performance waiver period, the other limited partners have the option of purchasing units held by the Corporation at the initially paid price, plus 6% of annual performance since their acquisition. As of the third fiscal year following the performance waiver period, the other limited partners also hold a purchase option at a price equal to the higher of the fair value or the carrying amount.

Investments in entities subject to significant influence are accounted for using the equity method.

Other investments are carried at acquisition cost and, if necessary, discounts and premiums on acquisition of investments are charged to income on a straight-line basis until maturity.

LOANS, SHARES AND UNITS

Loans (including accrued interest receivable), shares and units are carried at cost. When the credit rating has deteriorated to the extent that there is no reasonable assurance that a loan (principal and interest) will be collected in full, the loan is considered impaired. The reduction in the carrying amount then recognized and any subsequent changes are charged to the provision for losses.

When a loan for which losses are not repaid by the Government of Québec becomes impaired and the borrower owes more than three months' interest, the interest ceases to be recognized. The interest received on such loans is recorded as a recovery up to the amount written off or for which a provision has been entered, and is subsequently recorded as interest income.

Foreclosed assets are presented as impaired loans and are recorded at fair value at the time of foreclosure. The reduction in the carrying amount is then recorded. Any subsequent reduction is charged to the provision for losses.

The carrying amount of loans for which losses are not repaid by the Government of Québec, restructured as low-interest loans, interest-free loans or preferred shares, is recorded at the present value of net cash flows receivable pursuant to the new conditions, at the effective interest rate inherent in the loan. The reduction in the carrying amount resulting from restructuring is charged to the provision for losses. The increase in the present value, attributable to the passage of time, is accounted for as interest income.

Common shares stemming from restructured loans for which losses are not repaid by the Government of Québec are recorded at their carrying amount immediately after the loans are restructured. The difference between the carrying amount of a loan prior to restructuring and the carrying amount of the resulting shares is applied to the provision for losses. Any subsequent decrease in the carrying amount of the shares is also applied to the provision for losses. Any subsequent increase is recognized only upon the sale of the shares, as a gain on disposal of shares during the current year.

GUARANTEES

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once approved by the Corporation. Disbursements are then applied to reduce the accumulated provision for losses on guarantees, and the balance of guarantees is reduced accordingly. When the Corporation considers that there is reasonable assurance that a loan will be repaid, these disbursements are recorded as assets in accordance with accounting policies applicable to loans, shares or units, as the case may be.

ACCUMULATED PROVISION FOR LOSSES

The accumulated provision for losses on loans, shares, units and other receivables related to financing operations is presented on the Corporation's balance sheet, offset against the value of such assets. The accumulated provision for losses on loan guarantees is recorded as a liability on the balance sheet. In the Corporation's opinion, these provisions represent the most accurate possible estimate of the foreseeable amounts for losses on financing operations that are part of its portfolio.

Except for companies that benefit from business start-up and re-start investment programs and special class share programs, client companies are classified under seven risk categories, determined using solvency and credit criteria. This classification is updated regularly. One of these categories includes insolvent clients, while two others refer to companies that are likely to become insolvent in the short term. All impaired loans are classified in one of these three categories. The provision for losses on financing operations included in these three categories corresponds to the balance of each operation, less the estimated realizable value of the security, to which a percentage adjustment is applied based on loan collection experience for the companies in these categories. When a company assigned to either category is winding up, has ceased repaying the Corporation and a turnaround is unlikely, the related financing operations are written off.

The other four risk categories comprise companies whose financial profile matches that of the Corporation's target clientele. A group provision is calculated for each of these categories by applying a provision rate to the balance of the financing operations. The provision rate for each category is based on a statistical analysis of the number of companies that have been downgraded and the size of the losses recognized or deemed probable over the past three years.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or have special characteristics are subject to a specific analysis of the provision for losses, regardless of their risk category.

An overall provision is calculated for business start-up and re-start investment programs. This provision represents the amount of authorized guarantees to which a rate based on past experience is applied, less disbursements in respect of loan guarantees under these programs.

Certain loans may be forgiven according to the conditions set out in the loan agreement. The provision for losses on these loans takes into account the inherent risks in the loan agreement, as well as the aforementioned insolvency risks.

Special class shares are non-participating, and have no dividends and no set redemption date. These shares are subject to a specific analysis of the provision for losses.

The accounts receivable related to financing operations involving insolvent companies or companies likely to become insolvent in the short term are subject to a specific analysis of the provision for losses.

RECEIVABLE FROM THE GOVERNMENT OF QUÉBEC

The Government of Québec contributes to the Corporation's financing by repaying certain financial contributions and losses on certain financing operations, by paying interest contributions on certain financing operations and by paying fees to the Corporation. The receivable balance for these contributions appears under the heading "Other Assets."

FIXED ASSETS

Fixed assets are accounted for at cost and amortized on a straight-line basis over their estimated useful lives from the date they are put into service using the following rates:

Computer equipment	33⅓%
Office furniture	10%
Leasehold improvements	10%

FINITE LIFE INTANGIBLE ASSETS

Software and information systems development are accounted for at cost and are tested for impairment whenever events or changes in circumstances indicate that their carrying amount might not be recoverable. Any excess in the carrying amount over the fair value is charged to income in the period in which the impairment is determined. They are amortized on a straight-line basis over their estimated useful lives from the date they are put into service using the following rates:

Software	33⅓%
Information systems development	20%

LONG-TERM BORROWING ISSUANCE EXPENSES, DISCOUNTS AND PREMIUMS

Long-term borrowing issuance expenses, discounts and premiums are deferred and amortized on a straight-line basis over the term of the related borrowing. Deferred long-term borrowing issuance expenses are included in other assets. Deferred discounts and premiums are presented as a reduction of or increase in the borrowings with which they are associated.

LAND HELD FOR DECONTAMINATION PURPOSES

Land is valued at the lower of cost and net realizable value.

INTEREST CONTRIBUTIONS FROM THE GOVERNMENT OF QUÉBEC

Interest contributions from the Government of Québec are related to low-yield or zero-yield financing operations or to financing operations whose losses are repaid by the Government of Québec, and generally represent the excess of the Corporation's average monthly borrowing cost over the yield of these operations.

RISK PREMIUMS

When approving a financing operation, the Corporation may require a risk premium from the client company that varies according to the nature of the risk. Stock option premiums are derivative financial instruments and, as such, are accounted for at fair value. The resulting realized and unrealized gains are charged to income under "Risk Premiums—Stock Options." Share-in-income premiums are receivable and recorded no later than six months following the company's year-end. Lump-sum premiums are recorded when due according to the contract.

Stock options with a positive fair value are presented under "Other Assets."

Gains on disposal of shares acquired on the exercise of an option are presented in income under "Risk Premiums—Stock Options."

FINANCIAL CONTRIBUTIONS

Financial contributions consist of non-repayable financial contributions and conditional repayable financial contributions.

Financial contributions are charged to income in the year in which the Corporation approved the disbursement. Financial contributions to Emploi-Québec are recognized in income in the year in which the corresponding expenditure was incurred by Emploi-Québec. Financial contributions to the Ministère de l'Immigration et des Communautés culturelles are charged to income in the year in which its share of the income generated by the investment is recognized. The contribution from the Government of Québec for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recognized in the same year.

Subsequent recoveries of conditional repayable financial contributions are recognized in income for the current year. The applicable amount repayable to the Government of Québec is also recorded in income for the current year.

FEES TO FINANCIAL INTERMEDIARIES

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for soliciting immigrant investors, targeting companies for referral for non-repayable financial contributions and closing immigrant investor files.

Fees paid for soliciting immigrant investors and fees paid for targeting companies for referral are recorded once the financing operation has been accepted by the company. Fees paid for soliciting immigrant investors are deferred on a straight-line basis and charged to income over a period representing the term of the investments, that is, five years. Fees for closing immigrant investor files are recorded as files are closed.

DERIVATIVE FINANCIAL INSTRUMENTS

In addition to stock options that are included in risk premiums, the Corporation holds other derivative financial instruments to manage the interest rate risk and exchange rate risk stemming from positions appearing in the balance sheet. These other financial instruments are recorded at fair value and the resulting gains or losses are applied to income as an adjustment to other income. Derivate financial instruments with a positive fair value appear in "Other Assets" under "Assets Related to Derivative Financial Instruments," while those with a negative fair value appear in "Other Liabilities" under "Liabilities Related to Derivative Financial Instruments."

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities and guarantees denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at balance sheet date. Income and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the transaction date. Exchange gains and losses are recognized in income.

PENSION PLANS

The Corporation contributes to government multiemployer defined benefit pension plans. However, these contributions are reported under the accounting standards for defined contribution plans, as the information available to the Corporation is insufficient for the application of defined benefit plan accounting.

The Corporation has also implemented an optional supplementary pension plan to pay retirement benefits to certain senior managers, over and above the benefits paid under the basic pension plan. The cost of the retirement benefits accumulated by these employees is determined by actuarial calculations using the defined benefit method prorated on years of service, based on management's best estimates of expected plan investment performance, salary escalation and retirement age of employees.

3. CHANGES TO ACCOUNTING POLICIES DUE TO ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION

In 2005, the Canadian Institute of Chartered Accountants issued three new accounting standards: Section 3855, *Financial Instruments–Recognition and Measurement*, Section 3865, *Hedges* and Section 1530, *Comprehensive Income*. These standards must be adopted by Investissement Québec no later than April 1, 2007. The impact of these standards on the financial statements cannot be determined, as it is dependent on current positions and their fair value at the time of transition.

FINANCIAL INSTRUMENTS–RECOGNITION AND MEASUREMENT

This new standard requires all financial instruments to be classified in one of the following categories: financial assets and financial liabilities held for trading, held-to-maturity investments; loans and receivables; other financial liabilities; or available-for-sale financial assets. Financial assets and financial liabilities held for trading must be measured at their fair value, while gains and losses must be recognized in income. Held-to-maturity investments, and receivables, and other financial liabilities must be valued at unamortized cost. Available-for-sale financial assets must be measured at their fair value and the resulting unrealized gains and losses must be recognized in other comprehensive income. The standard also allows an election to classify any financial instrument as an instrument held for trading on initial recognition.

HEDGES

This new standard sets out the criteria for applying hedge accounting for each permitted hedging strategy: fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a self-sustaining foreign operation.

COMPREHENSIVE INCOME

Following the adoption of these standards, a new caption, entitled "Other Comprehensive Income," must be added to equity in the consolidated balance sheet. The main items under this caption will include unrealized gains and losses on available-for-sale financial assets, unrealized foreign currency translation amounts, net of hedging transactions, arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

4. TEMPORARY INVESTMENTS

	2007	2006
Bankers' acceptances, from 4.30% to 4.32%, maturing in April 2007	10,874	5,003
Deposit certificate, 4.67%, maturing in April 2007	6,618	4,605
	17,492	9,608

5. INVESTMENTS

	2007	2006
Notes receivable from the Government of Quebec, from 3.47% to 5.47%, maturing from April 2007 to March 2012, nominal value of $2.7 billion	2,403,967	2,071,153
Bonds and other debt securities, from 3.47% to 11.00%, maturing from March 2008 to July 2031, nominal value of $100.4 million	104,652	103,766
Money market securities–Mutual funds	35,927	34,969
Shares and other equity securities	27,704	35,574
Units of limited partnerships	83,325	40,331
Unlisted shares of entities acting as limited partners	4	(3)
Entity subject to significant influence–Canadair Quebec Capital S.E.N.C., accounted for using the equity accounting method	24	77
	2,655,603	2,285,867

Investments denominated in US dollars totalled CDN$7.3 million as at March 31, 2007 ($10.3 million as at March 31, 2006).

THE INVESTMENTS MATURE AS FOLLOWS:

Less than one year	332,315
From 1 to 2 years	546,183
From 2 to 3 years	673,275
From 3 to 4 years	499,296
From 4 to 5 years	452,750
From 5 to 10 years	88,009
More than 20 years	116
	2,591,944
No maturity	63,659
	2,655,603

6. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
Interest-bearing				
Fixed rate [1] [2]	4,800	169,342	174,142	159,989
Variable rate [3]	41,023	203,864	244,887	395,385
	45,823	373,206	419,029	555,374
Interest-free [4] [5]	55	584,345	584,400	394,607
Restructured	298	–	298	1,691
Impaired	28,393	214,315	242,708	303,832
	74,569	1,171,866	1,246,435	1,255,504
ACCUMULATED PROVISION FOR LOSSES				
Interest-bearing loans	(6,913)	(98,576)	(105,489)	(156,892)
Interest-free loans	(3)	(163,302)	(163,305)	(87,790)
Restructured loans	(233)	–	(233)	(1,331)
Impaired loans	(23,487)	(183,094)	(206,581)	(272,096)
	(30,636)	(444,972)	(475,608)	(518,109)
	43,933	726,894	770,827	737,395
ANTICIPATED CASH RECEIPTS FROM LOANS, ACCORDING TO CONTRACTUAL PROVISIONS, ARE AS FOLLOWS:				
Less than one year	21,271	114,767	136,038	168,335
From 1 to 2 years	12,952	72,092	85,044	72,179
From 2 to 3 years	10,839	73,996	84,835	73,728
From 3 to 4 years	8,355	182,234	190,589	86,849
From 4 to 5 years	10,096	56,394	66,490	157,566
From 5 to 10 years	10,821	538,282	549,103	455,085
From 10 to 20 years	235	23,655	23,890	182,932
More than 20 years	–	110,446	110,446	58,830
	74,569	1,171,866	1,246,435	1,255,504

(1) Fixed interest rates ranged from 2.75% to 15.00% as at March 31, 2007 (from 2.75% to 15.00% as at March 31, 2006)

(2) Including $33.3 million in contributions repayable via royalties as at March 31, 2007 ($20.7 million as at March 31, 2006)

(3) The Corporation's variable interest rate was 3.50% as at March 31, 2007 (7.00% as at March 31, 2006)

(4) These loans are interest-free for client companies. However, for loans whose losses are repaid by the Government of Québec, the government pays the Corporation interest contributions, calculated based on the balance of such loans at an interest rate that generally represents the Corporation's average monthly borrowing cost.

(5) Including $66.8 million in contributions repayable via royalties as at March 31, 2007 ($27.8 million as at March 31, 2006)

HEDGES

This new standard sets out the criteria for applying hedge accounting for each permitted hedging strategy: fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a self-sustaining foreign operation.

COMPREHENSIVE INCOME

Following the adoption of these standards, a new caption, entitled "Other Comprehensive Income," must be added to equity in the consolidated balance sheet. The main items under this caption will include unrealized gains and losses on available-for-sale financial assets, unrealized foreign currency translation amounts, net of hedging transactions, arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

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No maturity	63,659
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Variable rate [3]	41,023	203,864	244,887	395,385
	45,823	373,206	419,029	555,374
Interest-free [4] [5]	55	584,345	584,400	394,607
Restructured	298	–	298	1,691
Impaired	28,393	214,315	242,708	303,832
	74,569	1,171,866	1,246,435	1,255,504
ACCUMULATED PROVISION FOR LOSSES				
Interest-bearing loans	(6,913)	(98,576)	(105,489)	(156,892)
Interest-free loans	(3)	(163,302)	(163,305)	(87,790)
Restructured loans	(233)	–	(233)	(1,331)
Impaired loans	(23,487)	(183,094)	(206,581)	(272,096)
	(30,636)	(444,972)	(475,608)	(518,109)
	43,933	726,894	770,827	737,395
ANTICIPATED CASH RECEIPTS FROM LOANS, ACCORDING TO CONTRACTUAL PROVISIONS, ARE AS FOLLOWS:				
Less than one year	21,271	114,767	136,038	168,335
From 1 to 2 years	12,952	72,092	85,044	72,179
From 2 to 3 years	10,839	73,996	84,835	73,728
From 3 to 4 years	8,355	182,234	190,589	86,849
From 4 to 5 years	10,096	56,394	66,490	157,566
From 5 to 10 years	10,821	538,282	549,103	455,085
From 10 to 20 years	235	23,655	23,890	182,932
More than 20 years	–	110,446	110,446	58,830
	74,569	1,171,866	1,246,435	1,255,504

(1) Fixed interest rates ranged from 2.75% to 15.00% as at March 31, 2007 (from 2.75% to 15.00% as at March 31, 2006).

(2) Including $33.3 million in contributions repayable via royalties as at March 31, 2007 ($20.7 million as at March 31, 2006).

(3) The Corporation's variable interest rate was 7.50% as at March 31, 2007 (7.00% as at March 31, 2006).

(4) These loans are interest free for client companies. However, for loans whose losses are repaid by the Government of Québec, the government pays the Corporation interest contributions, calculated based on the balance of such loans at an interest rate that generally represents the Corporation's average monthly borrowing cost.

(5) Including $66.8 million in contributions repayable via royalties as at March 31, 2007 ($27.8 million as at March 31, 2006).

7. SHARES, LESS ACCUMULATED PROVISION FOR LOSSES

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
SHARES				
Common	675	25,250	25,925	26,161
Preferred	1,410	326,140	327,550	327,709
Of a special class	–	4,455	4,455	5,018
Common shares from restructured loans	975	–	975	243
Preferred shares from restructured loans	466	–	466	458
	3,526	355,845	359,371	359,589
ACCUMULATED PROVISION FOR LOSSES				
Common shares	(334)	(13,754)	(14,088)	(11,021)
Preferred shares	(1,252)	(30,968)	(32,220)	(39,163)
Special class of shares	–	(4,455)	(4,455)	(5,018)
Common shares from restructured loans	(907)	–	(907)	(227)
Preferred shares from restructured loans	(438)	–	(438)	(421)
	(2,931)	(49,177)	(52,108)	(55,850)
	595	306,668	307,263	303,739
SHARE REDEMPTION MATURITIES ARE AS FOLLOWS:				
Less than one year	503	194	697	857
From 1 to 2 years	75	53	128	102
From 2 to 3 years	75	53	128	128
From 3 to 4 years	75	53	128	128
From 4 to 5 years	68	16,680	16,748	128
From 5 to 10 years	52	887	939	17,687
From 10 to 20 years	–	45,000	45,000	45,000
More than 20 years	–	260,000	260,000	260,000
	848	322,920	323,768	324,030
No maturity	2,678	32,925	35,603	35,559
	3,526	355,845	359,371	359,589

The Corporation holds shares issued by public companies. The net carrying amount of these shares as at March 31, 2007 was $3.7 million ($3.1 million as at March 31, 2006). Based on quoted market prices as at March 31, 2007, these shares had a value of $3.4 million ($3.5 million as at March 31, 2006).

The Corporation has a put option on the common shares that it holds in a company. The put can be exercised in part (76.8%) as of January 2006 and in whole as of January 2009. Based on the minimum redemption price specified in the contract, the gain resulting from the full exercise of this put would be $8.2 million. As at March 31, 2007, the Corporation has not availed itself of this partial option.

8. UNITS, LESS ACCUMULATED PROVISION FOR LOSSES

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
UNITS				
Preferred of cooperatives	395	2,481	2,876	2,879
Of a limited partnership	–	11,639	11,639	11,639
Preferred of cooperatives from restructured loans	1,080	–	1,080	1,031
	1,475	14,120	15,595	15,549
ACCUMULATED PROVISION FOR LOSSES				
Preferred units of cooperatives	(308)	(732)	(1,040)	(1,209)
Units of a limited partnership	–	(11,639)	(11,639)	(11,639)
Preferred units of cooperatives from restructured loans	(842)	–	(842)	(237)
	(1,150)	(12,371)	(13,521)	(13,085)
	325	1,749	2,074	2,464
UNIT REDEMPTION MATURITIES ARE AS FOLLOWS:				
Less than one year	–	104	104	71
From 1 to 2 years	–	78	78	78
From 2 to 3 years	–	78	78	78
From 3 to 4 years	–	194	194	78
From 4 to 5 years	–	78	78	78
From 5 to 10 years	702	333	1,035	1,154
From 10 to 20 years	378	230	608	698
More than 20 years	–	495	495	514
	1,080	1,590	2,670	2,749
No maturity	395	12,530	12,925	12,800
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	1,475	14,120	15,595	15,549

9. GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
GUARANTEES				
Loan guarantees	207,331	295,392	502,723	474,463
Financial commitment guarantees	41,103	1,905,667	1,946,770	1,907,832
	248,434	2,201,059	2,449,493	2,382,295
ACCUMULATED PROVISION FOR LOSSES				
Loan guarantees	(34,866)	(45,832)	(80,698)	(83,344)
Financial commitment guarantees	(7,292)	(84,934)	(92,226)	(146,033)
	(42,158)	(130,766)	(172,924)	(229,377)
	206,276	2,070,293	2,276,569	2,152,918
LOAN GUARANTEE BALANCES MATURE AS FOLLOWS:				
Less than one year	31,057	35,753	66,810	77,902
From 1 to 2 years	26,964	21,878	48,842	37,456
From 2 to 3 years	17,145	11,062	28,207	34,242
From 3 to 4 years	32,175	51,377	83,552	34,033
From 4 to 5 years	32,034	30,496	62,530	83,278
From 5 to 10 years	105,938	231,000	336,938	260,466
From 10 to 20 years	3,121	1,819,493	1,822,614	1,854,918
	248,434	2,201,059	2,449,493	2,382,295

Guarantees denominated in US dollars totalled CDN$1.9 billion as at March 31, 2007 ($1.9 billion as at March 31, 2006) and guarantees denominated in other currencies amounted to CDN$25.5 million as at March 31, 2007 ($24.6 million as at March 31, 2006).

10. ACCUMULATED PROVISION FOR LOSSES

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec [1]	2007 Total	2006 Total
Balance, beginning of year	81,588	736,154	817,742	644,740
PROVISION FOR LOSSES [2]	3,354	(8,253)	(4,899)	235,888
Recoveries	1,609	1,397	3,006	2,978
Write-offs [3]	(3,906)	(88,025)	(91,931)	(45,812)
Guarantee disbursements that did not create an asset	(5,533)	(3,648)	(9,181)	(20,052)
Balance at end of year	77,112	637,625	714,737	817,742
THE ACCUMULATED PROVISION FOR LOSSES IS ALLOCATED AS FOLLOWS:				
Loans	30,636	444,972	475,608	518,109
Shares	2,931	49,177	52,108	55,850
Units	1,150	12,371	13,521	13,085
Other receivables related to financing operations	237	339	576	1,321
Guarantees	42,158	130,766	172,924	229,377
	77,112	637,625	714,737	817,742

The Corporation may demand that client companies provide securities and sureties. The nature of the securities generally concerns the universality of the client company's assets, including land, buildings, equipment, machinery and furniture. However, the provision for losses takes into account only the value of securities and sureties related to companies that are insolvent or that would likely become insolvent over the short term. The value of securities and sureties related to loans, shares and units stood at $12.3 million as at March 31, 2007 ($9.9 million as at March 31, 2006) and the value of guarantees at $18.5 million ($20.5 million as at March 31, 2006). The value of securities related to loans, shares and units in companies whose financial position meets the criteria of the Corporation's target clientele stood at $130.1 million as at March 31, 2007 ($98.5 million as at March 31, 2006).

(1) Corresponds to the "Accumulated Provision for Losses Recoverable from the Government of Québec" presented as an asset on the balance sheet.

(2) Including $0.9 million in exchange gains as at March 31, 2007 ($4.4 million as at March 31, 2006).

(3) Write-offs in respect of restructured loans and write-offs of shares from restructured loans amounted to $2.1 million for the year ended March 31, 2007 (no write-offs for the year ended March 31, 2006).

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Other receivables related to financing operations	237	339	576	1,321
Guarantees	42,158	130,766	172,924	229,377
	77,112	637,625	714,737	817,742

The Corporation may demand that client companies provide securities and sureties. The nature of the securities generally concerns the universality of the client company's assets, including land, buildings, equipment, machinery and furniture. However, the provision for losses takes into account only the value of securities and sureties related to companies that are insolvent or that would likely become insolvent over the short term. The value of securities and sureties related to loans, shares and units stood at $12.3 million as at March 31, 2007 ($9.9 million as at March 31, 2006) and the value of guarantees at $18.5 million ($20.5 million as at March 31, 2006). The value of securities related to loans, shares and units in companies whose financial position meets the criteria of the Corporation's target clientele stood at $130.1 million as at March 31, 2007 ($98.5 million as at March 31, 2006).

(1) Corresponds to the "Accumulated Provision for Losses Recoverable from the Government of Québec" presented as an asset on the balance sheet.

(2) Including $0.9 million in exchange gains as at March 31, 2007 ($4.4 million as at March 31, 2006).

(3) Write-offs in respect of restructured loans and write-offs of shares from restructured loans amounted to $2.1 million for the year ended March 31, 2007 (no write-offs for the year ended March 31, 2006).

11. OTHER ASSETS

	2007	2006
Receivable from the Government of Québec	12,549	13,338
Stock options	4,593	3,757
Deferred fees to financial intermediaries	79,813	78,557
Interest and dividends receivable on investments	1,529	1,783
Deferred issuance expenses on long-term borrowings [1]	3,756	4,475
Assets related to derivative financial instruments	1,221	2,186
Fixed assets, less accumulated amortization of $4.1 million ($3.6 million as at March 31, 2006)	2,387	1,992
Finite life intangible assets, less accumulated amortization of $6.6 million ($6.3 million as at March 31, 2006)	769	623
Administration fees receivable–Related parties	509	406
Other receivables related to financing operations, less accumulated provision for losses [2]	2,877	1,651
Other receivables	825	602
	110,828	109,370

(1) From transactions entered into with the Fonds de financement du gouvernement du Québec.

(2) Other receivables related to financing operations, less accumulated provision for losses.

	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
Receivables related to financing operations	854	2,599	3,453	2,972
Accumulated provision for losses on receivables related to financing operations (note 10)	(237)	(339)	(576)	(1,321)
	617	2,260	2,877	1,651

Receivables related to financing operations denominated in US dollars totalled CDN$0.6 million as at March 31, 2007 (CDN$0.5 million as at March 31, 2006).

12. SHORT-TERM BORROWINGS

	2007	2006
Bankers' acceptances–financial institutions, from 4.35% to 4.37%, maturing in April 2007	20,300	37,500
Notes – financial institutions, from 4.36% to 4.37%, maturing in April 2007	25,600	43,700
Notes – Fonds de financement du gouvernement du Québec, 4.39%, maturing in April 2007	12,100	20,700
	58,000	101,900

Under Order in Council 877-2006 of October 3, 2006, the Corporation is authorized to contract short-term borrowings from financial institutions or the Fonds de financement du gouvernement du Québec and long-term borrowings from the latter up to a maximum current amount of $1.3 billion until October 31, 2010. In addition, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the non-fulfillment of obligations arising from borrowings with the Fonds de financement du gouvernement du Québec. The terms of this Order in Council also apply to the notes payable to the Fonds de financement du gouvernement du Québec referred to in note 13.

The Corporation has bank lines of credit totalling $10 million, bearing interest at the lender's prime rate (6.00% as at March 31, 2007; 5.50% as at March 31, 2006), renewable annually. As at March 31, 2007 and 2006, these bank lines of credit were undrawn.

13. LONG-TERM BORROWINGS

	2007	2006
Notes – Fonds de financement du gouvernement du Québec:		
– at the bankers' acceptance rate (1 month) plus 0.19%, maturing in October 2007	75,000	75,000
– at the bankers' acceptance rate (1 month) plus 0.28%, maturing in July 2009	175,000	175,000
– 4.33%, maturing in July 2010	28,200	28,200
– 8.00%, maturing in December 2010, nominal value of $75.6 million (effective rate of 6.07%)	79,739	80,868
– at the bankers' acceptance rate (3 months) plus 0.15%, maturing in October 2013	100,000	100,000
– at the bankers' acceptance rate (1 month) plus 0.08%, maturing in October 2013	60,000	60,000
– at the bankers' acceptance rate (1 month) plus 0.05%, maturing in October 2013 [1]	162,500	162,500
– at the bankers' acceptance rate (1 month) plus 0.12%, maturing in October 2013	134,120	134,120
– at the bankers' acceptance rate (1 month) plus 0.09%, maturing in October 2013 [1]	52,500	52,500
– at the bankers' acceptance rate (1 month) plus 0.10%, maturing from February 2012 to May 2014	100,000	100,000
– at the bankers' acceptance rate (1 month) plus 0.21%, maturing in June 2032	47,500	47,500
Interest-free advances from the Government of Québec, maturing from June 2020 to September 2021	97,167	44,667
Note – immigrant investors, interest-free, maturing from April 2007 to March 2012 [2]	2,610,400	2,291,600
	3,722,126	3,351,955

REPAYMENTS OF PRINCIPAL ON LONG-TERM BORROWINGS ARE AS FOLLOWS:

Less than one year	394,200
From 1 to 2 years	534,800
From 2 to 3 years	880,600
From 3 to 4 years	623,539
From 4 to 5 years	600,200
From 5 to 10 years	544,120
From 10 to 20 years	87,167
More than 20 years	47,500
	3,712,126
No maturity	10,000
	3,722,126

(1) The Corporation has the option of renewing this borrowing for a maximum period of 20 years from the maturity of the initial borrowing.

(2) Payment of the principal is guaranteed by Québec.

11. OTHER ASSETS

	2007	2006
Receivable from the Government of Québec	12,549	13,338
Stock options	4,593	3,757
Deferred fees to financial intermediaries	79,813	78,557
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Finite life intangible assets, less accumulated amortization of $6.6 million ($6.3 million as at March 31, 2006)	769	623
Administration fees receivable–Related parties	509	406
Other receivables related to financing operations, less accumulated provision for losses [2]	2,877	1,651
Other receivables	825	602
	110,828	109,370

(1) From transactions entered into with the Fonds de financement du gouvernement du Québec.

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	Losses not repaid by the Government of Québec	Losses repaid by the Government of Québec	2007 Total	2006 Total
Receivables related to financing operations	854	2,599	3,453	2,972
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	617	2,260	2,877	1,651

Receivables related to financing operations denominated in US dollars totalled CDN$0.6 million as at March 31, 2007 (CDN$0.5 million as at March 31, 2006).

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	58,000	101,900

Under Order in Council 877-2006 of October 3, 2006, the Corporation is authorized to contract short-term borrowings from financial institutions or the Fonds de financement du gouvernement du Québec and long-term borrowings from the latter up to a maximum current amount of $1.3 billion until October 31, 2010. In addition, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the non-fulfillment of obligations arising from borrowings with the Fonds de financement du gouvernement du Québec. The terms of this Order in Council also apply to the notes payable to the Fonds de financement du gouvernement du Québec referred to in note 13.

The Corporation has bank lines of credit totalling $10 million, bearing interest at the lender's prime rate (6.00% as at March 31, 2007; 5.50% as at March 31, 2006), renewable annually. As at March 31, 2007 and 2006, these bank lines of credit were undrawn.

13. LONG-TERM BORROWINGS

	2007	2006
Notes – Fonds de financement du gouvernement du Québec:		
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– at the bankers' acceptance rate (1 month) plus 0.05%, maturing in October 2013 [1]	162,500	162,500
– at the bankers' acceptance rate (1 month) plus 0.12%, maturing in October 2013	134,120	134,120
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– at the bankers' acceptance rate (1 month) plus 0.10%, maturing from February 2012 to May 2014	100,000	100,000
– at the bankers' acceptance rate (1 month) plus 0.21%, maturing in June 2032	47,500	47,500
Interest-free advances from the Government of Québec, maturing from June 2020 to September 2021	97,167	44,667
Note – immigrant investors, interest-free, maturing from April 2007 to March 2012 [2]	2,610,400	2,291,600
	3,722,126	3,351,955

REPAYMENTS OF PRINCIPAL ON LONG-TERM BORROWINGS ARE AS FOLLOWS:

Less than one year	394,200
From 1 to 2 years	534,800
From 2 to 3 years	880,600
From 3 to 4 years	623,539
From 4 to 5 years	600,200
From 5 to 10 years	544,120
From 10 to 20 years	87,167
More than 20 years	47,500
	3,712,126
No maturity	10,000
	3,722,126

(1) The Corporation has the option of renewing this borrowing for a maximum period of 20 years from the maturity of the initial borrowing.

(2) Payment of the principal is guaranteed by Québec.

14. OTHER LIABILITIES

	2007	2006
Financial contributions and guarantees payable	–	1,077
Non-repayable financial contributions payable to Emploi-Quebec	2,765	2,609
Non-repayable financial contributions payable to the Ministere de l'Immigration et des Communautés culturelles	1,166	–
Deferred income [1]	3,487	3,060
Liabilities related to derivative financial instruments	3,536	2,603
Sick leave and vacation time payable (note 29)	10,887	10,319
Other payables [2]	7,972	4,514
	29,813	24,182

(1) Including a deferred contribution of the Ministere du Developpement économique, de l'Innovation et de l'Exportation amounting to $50,000 as at March 31, 2007 ($50,000 as at March 31, 2006).

(2) Including $0.3 million due to related parties as at March 31, 2007 ($0.2 million as at March 31, 2006).

15. INTEREST EXPENSE

	2007	2006	2005
Interest on long-term borrowings [1]	47,709	35,452	29,399
Interest on short-term borrowings and bank charges [2]	4,558	3,674	6,794
Amortization of issuance expenses on long-term borrowings [1]	719	719	713
Amortization of premium on long-term borrowings [1]	(1,129)	(1,129)	(1,129)
	51,857	38,716	35,777

(1) From transactions entered into with the Fonds de financement du gouvernement du Québec.

(2) The interest expense in respect of short-term borrowings from the Fonds de financement du gouvernement du Québec totalled $1.8 million for the year ended March 31, 2007 ($0.9 million for the year ended March 31, 2006; $2.1 million for the year ended March 31, 2005).

16. RISK PREMIUMS—STOCK OPTIONS

	2007	2006	2005
Gain on disposal of stock options	1,526	2,220	878
Gain on disposal of shares resulting from the exercise of stock options	358	1,473	1,556
Unrealized gain (loss) resulting from changes in the fair value of stock options	836	(170)	(25)
	2,720	3,523	2,409

17. OTHER INCOME

	2007	2006	2005
Gain on disposal of shares and units	66	136,437	17,173
Share of income distributed by a limited partnership	–	–	70
Dividends	5	21	3
Inducement fees	3,020	3,020	2,180
Certification fees	3,687	2,160	104
Income on other investments	6,255	6,128	5,193
Gain on disposal of investments	1,338	1,165	887
Change in unrealized loss in value of investments	(2,608)	(515)	–
Unrealized foreign exchange gain (loss) on investments	149	(284)	(629)
Net loss on derivative financial instruments	(2,439)	(6,346)	(107)
Other income from the Government of Québec	4,428	1,667	1,885
Other income	1,004	952	225
	14,905	144,405	26,984

18. FINANCIAL CONTRIBUTIONS

	Not assumed by the Government of Québec	Assumed by the Government of Québec [1]	2007 Total	2006 Total	2005 Total
Non-repayable financial contributions–Companies	43,127	20,957	64,084	62,609	51,786
Non-repayable financial contributions–Emploi-Québec	5,576	–	5,576	2,609	–
Non-repayable financial contributions–Ministère de l'Immigration et des Communautés culturelles	1,166	–	1,166	–	–
Conditional repayable financial contributions	–	(1,291)	(1,291)	(2,590)	847
	49,869	19,666	69,535	62,628	52,633

(1) Represents the "Financial Contributions Assumed by the Government of Québec" presented in consolidated income.

19. ADMINISTRATIVE EXPENSES [1]

	2007	2006	2005
Salaries and employee benefits	34,091	30,282	28,228
Rent	2,780	2,757	2,320
Travel, entertainment, advertising and promotion	4,187	4,001	3,489
Professional and other fees	1,378	989	1,056
Amortization of fixed assets and finite life intangible assets	864	800	859
Other	4,339	4,521	4,324
	47,639	43,350	40,276

(1) Including $3.7 million for related entities for the year ended March 31, 2007 ($3.9 million for the year ended March 31, 2006; $4.6 million for the year ended March 31, 2005).

14. OTHER LIABILITIES

	2007	2006
Financial contributions and guarantees payable	–	1,077
Non-repayable financial contributions payable to Emploi-Québec	2,765	2,609
Non-repayable financial contributions payable to the Ministère de l'Immigration et des Communautés culturelles	1,166	–
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Sick leave and vacation time payable (note 29)	10,887	10,319
Other payables [2]	7,972	4,514
	29,813	24,182

(1) Including a deferred contribution of the Ministère du Développement économique, de l'Innovation et de l'Exportation amounting to $50,000 as at March 31, 2007 ($50,000 as at March 31, 2006).

(2) Including $0.3 million due to related parties as at March 31, 2007 ($0.2 million as at March 31, 2006).

15. INTEREST EXPENSE

	2007	2006	2005
Interest on long-term borrowings [1]	47,709	35,452	29,399
Interest on short-term borrowings and bank charges [2]	4,558	3,674	6,794
Amortization of issuance expenses on long-term borrowings [1]	719	719	713
Amortization of premium on long-term borrowings [1]	(1,129)	(1,129)	(1,129)
	51,857	38,716	35,777

(1) From transactions entered into with the Fonds de financement du gouvernement du Québec.

(2) The interest expense in respect of short-term borrowings from the Fonds de financement du gouvernement du Québec totalled $1.8 million for the year ended March 31, 2007 ($0.9 million for the year ended March 31, 2006, $2.1 million for the year ended March 31, 2005).

16. RISK PREMIUMS—STOCK OPTIONS

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Gain on disposal of shares resulting from the exercise of stock options	358	1,473	1,556
Unrealized gain (loss) resulting from changes in the fair value of stock options	836	(170)	(25)
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Inducement fees	3,020	3,020	2,180
Certification fees	3,687	2,160	104
Income on other investments	6,255	6,128	5,193
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Unrealized foreign exchange gain (loss) on investments	149	(284)	(629)
Net loss on derivative financial instruments	(2,439)	(6,346)	(107)
Other income from the Government of Québec	4,428	1,667	1,885
Other income	1,004	952	225
	14,905	144,405	26,984

18. FINANCIAL CONTRIBUTIONS

			2007	2006	2005
	Not assumed by the Government of Québec	Assumed by the Government of Québec [1]	Total	Total	Total
Non-repayable financial contributions–Companies	43,127	20,957	64,084	62,609	51,786
Non-repayable financial contributions–Emploi-Québec	5,576	–	5,576	2,609	–
Non-repayable financial contributions–Ministère de l'Immigration et des Communautés culturelles	1,166	–	1,166	–	–
Conditional repayable financial contributions	–	(1,291)	(1,291)	(2,590)	847
	49,869	19,666	69,535	62,628	52,633

(1) Represents the "Financial Contributions Assumed by the Government of Québec" presented in consolidated income.

19. ADMINISTRATIVE EXPENSES [1]

	2007	2006	2005
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Rent	2,780	2,757	2,320
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Professional and other fees	1,378	989	1,056
Amortization of fixed assets and finite life intangible assets	864	800	859
Other	4,339	4,521	4,324
	47,639	43,350	40,276

(1) Including $3.7 million for related entities for the year ended March 31, 2007 ($3.9 million for the year ended March 31, 2006; $4.6 million for the year ended March 31, 2005).

20. OTHER EXPENSES

	2007	2006	2005
Counter-guarantee fees	3,020	3,020	2,180
Share of income—Entity subject to significant influence, Canadair Québec Capital S.E.N.C.	53	9	–
Other expenses	716	862	806
	3,789	3,891	2,986

21. CHANGES IN OPERATING ASSETS AND LIABILITIES

	2007	2006	2005
Other assets	236	34,888	(37,569)
Due and accrued interest on borrowings	3,530	2,810	297
Other liabilities	4,698	(777)	2,186
Accumulated provision for losses	(98,106)	(62,886)	(167,094)
Accumulated provision for losses recoverable from the Government of Québec	90,276	51,036	150,337
	634	25,071	(51,843)

22. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing financing operations, the Corporation may require client companies to pay a stock option risk premium that varies based on the nature of the risk. The Corporation also enters into futures contracts for the purchase or sale of financial instruments at set prices and future dates. Futures contracts are traded based on standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

The following table shows the fair value of the Corporation's portfolio of derivative financial instruments as at March 31, 2007, as represented by unrealized gains in the case of stock options and by unrealized gains or losses with regard to futures contracts.

			2007	2006
	Positive	Negative	Net amount	Net amount
Stock options	4,593	–	4,593	3,757
Foreign exchange options	1,221	–	1,221	2,186
Interest rate swaps	–	3,536	(3,536)	(2,603)
Exchange traded futures	11	–	11	79
	5,825	3,536	2,289	3,419

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is meant to reflect the approximate amount for which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act in the normal course of business. The best indication of fair value is the market price.

When available, the Corporation relies on market prices at the balance sheet date to determine the fair value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures fair value using valuation methods and assumptions. Given the role that judgment plays in the application of many acceptable valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among different entities. Fair value is based on market conditions at a given point in time and hence does not necessarily reflect the future fair value of instruments. It cannot be interpreted as the realizable amount upon immediate settlement of the instruments.

The following table illustrates the fair value of financial derivatives, including balance sheet and off-balance sheet derivatives, that were established using the valuation methods and assumptions described below. The fair values of assets and liabilities that are not considered financial instruments, such as fixed assets and finite life intangible assets, and those not covered by the recommendations of the *CICA Handbook* Section 3860, *Financial Instruments–Disclosure and Presentation*, are not presented in the table.

	2007			2006		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
BALANCE SHEET FINANCIAL INSTRUMENTS						
Assets						
Cash, bank overdraft and temporary investments	26,932	26,932	–	3,667	3,667	–
Investments	2,655,579	2,662,287	6,708	2,285,790	2,284,446	(1,344)
Loans, less accumulated provision for losses [1]	770,827	711,223	(59,604)	737,395	681,543	(55,852)
Shares and units, less accumulated provision for losses [1]	309,337	65,983	(243,354)	306,203	58,668	(247,535)
Accumulated provision for losses recoverable from the Government of Québec	637,625	899,116	261,491	736,154	918,199	182,045
Stock options	4,593	4,593	–	3,757	3,757	–
Assets related to derivative financial instruments	1,221	1,221	–	2,186	2,186	–
Interest contributions from the Government of Québec	–	178,293	178,293	–	160,970	160,970
Other assets	18,288	18,288	–	17,756	17,756	–
	4,424,402	4,567,936	143,534	4,092,908	4,131,192	38,284
Liabilities						
Borrowings	3,780,126	3,521,690	258,436	3,453,855	3,199,476	254,379
Liabilities related to derivative financial instruments	3,536	3,536	–	2,603	2,603	–
Other liabilities	30,807	30,777	30	23,574	23,548	26
	3,814,469	3,556,003	258,466	3,480,032	3,225,627	254,405
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS						
Guarantees [2]	(172,924)	(297,388)	(124,464)	(229,377)	(290,071)	(60,694)
	(172,924)	(297,388)	(124,464)	(229,377)	(290,071)	(60,694)
			277,536			231,995

(1) The Corporation accounted for low yield or zero yield loans, shares and units, less the accumulated provision for losses, at a value higher than their fair value. The difference between the carrying amount ($1.1 billion) and the fair value ($777.2 million) does not result in permanent impairment but stems rather from the discounting of such loans, shares and units. The Corporation accounts for the latter at cost, given that the Government of Québec pays it an interest contribution so as to offset the low or zero yield on these assets.

(2) Guarantees are classified as off-balance sheet financial instruments. However, the carrying amount of guarantees, which represents the amount of the accumulated provision for losses on guarantees, is part of the financial instruments presented in the Corporation's balance sheet.

20. OTHER EXPENSES

	2007	2006	2005
Counter-guarantee fees	3,020	3,020	2,180
Share of income–Entity subject to significant influence, Canadair Québec Capital S.E.N.C.	53	9	–
Other expenses	716	862	806
	3,789	3,891	2,986

21. CHANGES IN OPERATING ASSETS AND LIABILITIES

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Accumulated provision for losses	(98,106)	(62,886)	(167,094)
Accumulated provision for losses recoverable from the Government of Québec	90,276	51,036	150,337
	634	25,071	(51,843)

22. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing financing operations, the Corporation may require client companies to pay a stock option risk premium that varies based on the nature of the risk. The Corporation also enters into futures contracts for the purchase or sale of financial instruments at set prices and future dates. Futures contracts are traded based on standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

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Exchange traded futures	11	–	11	79
	5,825	3,536	2,289	3,419

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is meant to reflect the approximate amount for which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act in the normal course of business. The best indication of fair value is the market price.

When available, the Corporation relies on market prices at the balance sheet date to determine the fair value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures fair value using valuation methods and assumptions. Given the role that judgment plays in the application of many acceptable valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among different entities. Fair value is based on market conditions at a given point in time and hence does not necessarily reflect the future fair value of instruments. It cannot be interpreted as the realizable amount upon immediate settlement of the instruments.

The following table illustrates the fair value of financial derivatives, including balance sheet and off-balance sheet derivatives, that were established using the valuation methods and assumptions described below. The fair values of assets and liabilities that are not considered financial instruments, such as fixed assets and finite life intangible assets, and those not covered by the recommendations of the *CICA Handbook* Section 3860, *Financial Instruments–Disclosure and Presentation*, are not presented in the table.

	2007			2006		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
BALANCE SHEET FINANCIAL INSTRUMENTS						
Assets						
Cash, bank overdraft and temporary investments	26,932	26,932	–	3,667	3,667	–
Investments	2,655,579	2,662,287	6,708	2,285,790	2,284,446	(1,344)
Loans, less accumulated provision for losses [1]	770,827	711,223	(59,604)	737,395	681,543	(55,852)
Shares and units, less accumulated provision for losses [1]	309,337	65,983	(243,354)	306,203	58,668	(247,535)
Accumulated provision for losses recoverable from the Government of Québec	637,625	899,116	261,491	736,154	918,199	182,045
Stock options	4,593	4,593	–	3,757	3,757	–
Assets related to derivative financial instruments	1,221	1,221	–	2,186	2,186	–
Interest contributions from the Government of Québec	–	178,293	178,293	–	160,970	160,970
Other assets	18,288	18,288	–	17,756	17,756	–
	4,424,402	4,567,936	143,534	4,092,908	4,131,192	38,284
Liabilities						
Borrowings	3,780,126	3,521,690	258,436	3,453,855	3,199,476	254,379
Liabilities related to derivative financial instruments	3,536	3,536	–	2,603	2,603	–
Other liabilities	30,807	30,777	30	23,574	23,548	26
	3,814,469	3,556,003	258,466	3,480,032	3,225,627	254,405
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS						
Guarantees [2]	(172,924)	(297,388)	(124,464)	(229,377)	(290,071)	(60,694)
	(172,924)	(297,388)	(124,464)	(229,377)	(290,071)	(60,694)
			277,536			231,995

(1) The Corporation accounted for low-yield or zero-yield loans, shares and units, less the accumulated provision for losses, at a value higher than their fair value. The difference between the carrying amount ($1.1 billion) and the fair value ($777.2 million) does not result in permanent impairment but stems rather from the discounting of such loans, shares and units. The Corporation accounts for the latter at cost, given that the Government of Québec pays it an interest contribution so as to offset the low or zero yield on these assets.

(2) Guarantees are classified as off-balance sheet financial instruments. However, the carrying amount of guarantees, which represents the amount of the accumulated provision for losses on guarantees, is part of the financial instruments presented in the Corporation's balance sheet.

THE FAIR VALUE OF BALANCE SHEET AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS WAS ESTIMATED USING THE FOLLOWING METHODS AND ASSUMPTIONS:

CASH, TEMPORARY INVESTMENTS, BANK OVERDRAFT, SHORT-TERM BORROWINGS, AND OTHER ASSETS AND LIABILITIES

Given the short-term maturities of cash, temporary investments, bank overdraft, short-term borrowings, and other assets and liabilities, their fair value is considered to be equivalent to their carrying amount.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using market interest rates for borrowings with similar terms and credit risks.

INVESTMENTS

The fair value of investments in securities is based on market prices at the balance sheet date. The fair value of notes receivable from the Government of Québec is estimated by discounting cash flows using market interest rates for investments with similar terms and credit risks.

LOANS

The fair value of the loan portfolio is based on the assessment of interest rate risk and credit risk. The fair value of fixed-rate, fixed-repayment loans is estimated by discounting cash flows using risk-free market interest rates and taking into account the Corporation's loss experience for loans with similar terms and credit risks. The fair value of variable-rate loans or loans with rates that are revised frequently is deemed to be equal to the net carrying amount given that they bear interest at rates that vary based on market conditions. The fair value of variable-repayment loans cannot be reasonably estimated, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the carrying amount. For impaired loans, the fair value is deemed to be equal to the carrying amount, in accordance with the valuation methods described in note 2 under "Accumulated Provision for Losses."

SHARES AND UNITS

The fair value of shares and units is based on market prices, at the balance sheet date, when they are available. The fair value of preferred shares with a set redemption date and that of fixed-rate, fixed-repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free market interest rates and taking into account the Corporation's loss experience for shares and units with similar terms and credit risks. With respect to other equity securities that are not traded on organized markets, the fair value, since it cannot be reasonably estimated, is deemed to be equivalent to the carrying amount.

ACCUMULATED PROVISION FOR LOSSES RECOVERABLE FROM THE GOVERNMENT OF QUÉBEC

The fair value of the accumulated provision for losses recoverable from the Government of Québec is based on the assessment of interest rate risk and credit risk, and is estimated by discounting cash flows, which represent anticipated losses on financing operations, using the interest rates of the Government of Québec and taking into account the Corporation's loss experience for financing operations with similar terms and credit risks.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is based on market prices, at the balance sheet date, when they are available. With respect to stock options that are not traded on organized markets, the fair value is based on the carrying amount of the company concerned.

INTEREST CONTRIBUTIONS FROM THE GOVERNMENT OF QUÉBEC

The fair value of interest contributions from the Government of Québec is based on the assessment of interest rate risk and credit risk. The fair value of interest contributions from the Government of Québec is estimated by discounting cash flows using the interest rates of the Government of Québec.

BORROWINGS

The fair value of fixed-rate long-term borrowings is based on market prices for debt instruments with similar terms and credit risks. The fair value of variable-rate long-term borrowings is deemed to be equal to the carrying amount.

GUARANTEES

The fair value of the guarantee portfolio is based on the assessment of interest rate risk and credit risk, and is estimated by discounting anticipated guarantee fees and disbursements using risk-free market interest rates and taking into account the Corporation's loss experience for guarantees with similar terms and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value represents the accumulated provision for losses, in accordance with the valuation methods described in note 2 under "Accumulated Provision for Losses."

24. INTEREST RATE SENSITIVITY

The Corporation offers a range of financial instruments with cash flows that are sensitive to interest rate fluctuations. Interest rate risk results from the inconsistency between the various cash flows, whether on or off balance sheet. The impact of this risk on the Corporation's financial results depends on changes in interest rates.

The Corporation's sensitivity to changes in interest rates as at March 31 is detailed as follows:

							2007
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates	Total
BALANCE SHEET FINANCIAL INSTRUMENTS							
Assets							
Cash and temporary investments	–	17,492	–	–	–	9,440	26,932
Real interest rate		*4.4%*					
Investments	–	93,402	238,912	2,171,942	4,363	146,984	2,655,603
Real interest rate		*5.3%*	*4.6%*	*4.1%*	*4.4%*		
Interest-free loans	–	4,320	5,165	107,427	467,488	99,530	683,930
Other loans, shares and units	233,292	11,715	111	131,279	42,964	518,110	937,471
Real interest rate		*7.6%*	*4.6%*	*7.7%*	*6.8%*		
Accumulated provision for losses on loans, shares and units	–	–	–	–	–	(541,237)	(541,237)
Accumulated provision for losses recoverable from the Government of Québec	–	–	–	–	–	637,625	637,625
Other assets	–	–	–	–	–	110,828	110,828
	233,292	126,929	244,188	2,410,648	514,815	981,280	4,511,152
Liabilities and equity							
Interest-free borrowings	–	90,400	228,800	2,291,200	97,167	–	2,707,567
Interest-bearing borrowings	–	964,620	–	107,939	–	–	1,072,559
Real interest rate		*4.5%*		*5.6%*			
Other liabilities	–	(97,859)	–	–	101,395	218,105	221,641
Equity	–	–	–	–	–	509,385	509,385
	–	957,161	228,800	2,399,139	198,562	727,490	4,511,152
Sensitivity gap	233,292	(830,232)	15,388	11,509	316,253	253,790	–
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Guarantees	–	–	–	–	–	2,276,569	2,276,569
Sensitivity gap	–	–	–	–	–	(2,276,569)	(2,276,569)
TOTAL 2007	233,292	(830,232)	15,388	11,509	316,253	(2,022,779)	(2,276,569)

							2006
Balance sheet financial instruments	382,503	(912,257)	23,140	(35,244)	220,542	321,316	–
Off-balance sheet financial instruments	–	–	–	–	–	(2,152,918)	(2,152,918)
TOTAL 2006	382,503	(912,257)	23,140	(35,244)	220,542	(1,831,602)	(2,152,918)

The real interest rate represents the average weighted effective interest rate taking into consideration the earlier of the rate modification date set out in the contract and the maturity date.

25. CONCENTRATION OF CREDIT RISK RELATED TO FINANCIAL OPERATIONS

	2007			2006		
	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec
BY SECTOR:						
Primary sector companies	7,784	7,744	41,772	7,496	6,327	39,123
Secondary sector companies						
Transportation equipment	220,825	1,862,621	135,662	163,981	1,776,654	210,157
Paper	258,537	2,003	124,789	253,862	2,924	207,821
Primary processing metals and metal products	326,918	35,377	27,676	323,090	25,307	30,942
Other	176,967	167,119	168,229	178,226	137,140	127,956
	983,247	2,067,120	456,356	919,159	1,942,025	576,876
Tertiary sector companies	92,010	201,705	139,497	118,594	204,566	120,155
	1,083,041	2,276,569	637,625	1,045,249	2,152,918	736,154
WITH THE GOVERNMENT OF QUÉBEC:						
Financing operations for which losses are repaid by the Government of Québec	1,037,571	2,070,293	637,625	1,002,521	1,961,413	736,154

24. INTEREST RATE SENSITIVITY

The Corporation offers a range of financial instruments with cash flows that are sensitive to interest rate fluctuations. Interest rate risk results from the inconsistency between the various cash flows, whether on or off balance sheet. The impact of this risk on the Corporation's financial results depends on changes in interest rates.

The Corporation's sensitivity to changes in interest rates as at March 31 is detailed as follows:

							2007
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates	Total
BALANCE SHEET FINANCIAL INSTRUMENTS							
Assets							
Cash and temporary investments	–	17,492	–	–	–	9,440	26,932
Real interest rate		*4.4%*					
Investments	–	93,402	238,912	2,171,942	4,363	146,984	2,655,603
Real interest rate		*5.3%*	*4.6%*	*4.1%*	*4.4%*		
Interest-free loans	–	4,320	5,165	107,427	467,488	99,530	683,930
Other loans, shares and units	233,292	11,715	111	131,279	42,964	518,110	937,471
Real interest rate		*7.6%*	*4.6%*	*7.7%*	*6.8%*		
Accumulated provision for losses on loans, shares and units	–	–	–	–	–	(541,237)	(541,237)
Accumulated provision for losses recoverable from the Government of Québec	–	–	–	–	–	637,625	637,625
Other assets	–	–	–	–	–	110,828	110,828
	233,292	126,929	244,188	2,410,648	514,815	981,280	4,511,152
Liabilities and equity							
Interest-free borrowings	–	90,400	228,800	2,291,200	97,167	–	2,707,567
Interest-bearing borrowings	–	964,620	–	107,939	–	–	1,072,559
Real interest rate		*4.5%*		*5.6%*			
Other liabilities	–	(97,859)	–	–	101,395	218,105	221,641
Equity	–	–	–	–	–	509,385	509,385
	–	957,161	228,800	2,399,139	198,562	727,490	4,511,152
Sensitivity gap	233,292	(830,232)	15,388	11,509	316,253	253,790	–
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Guarantees	–	–	–	–	–	2,276,569	2,276,569
Sensitivity gap	–	–	–	–	–	(2,276,569)	(2,276,569)
TOTAL 2007	233,292	(830,232)	15,388	11,509	316,253	(2,022,779)	(2,276,569)

							2006
Balance sheet financial instruments	382,503	(912,257)	23,140	(35,244)	220,542	321,316	–
Off-balance sheet financial instruments	–	–	–	–	–	(2,152,918)	(2,152,918)
TOTAL 2006	382,503	(912,257)	23,140	(35,244)	220,542	(1,831,602)	(2,152,918)

The real interest rate represents the average weighted effective interest rate taking into consideration the earlier of the rate modification date set out in the contract and the maturity date.

25. CONCENTRATION OF CREDIT RISK RELATED TO FINANCIAL OPERATIONS

	2007			2006		
	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec	Loans, shares, units and receivables less the accumulated provision for losses	Guarantees, less the accumulated provision for losses	Accumulated provision for losses recoverable from the Government of Québec
BY SECTOR:						
Primary sector companies	7,784	7,744	41,772	7,496	6,327	39,123
Secondary sector companies						
Transportation equipment	220,825	1,862,621	135,662	163,981	1,776,654	210,157
Paper	258,537	2,003	124,789	253,862	2,924	207,821
Primary processing metals and metal products	326,918	35,377	27,676	323,090	25,307	30,942
Other	176,967	167,119	168,229	178,226	137,140	127,956
	983,247	2,067,120	456,356	919,159	1,942,025	576,876
Tertiary sector companies	92,010	201,705	139,497	118,594	204,566	120,155
	1,083,041	2,276,569	637,625	1,045,249	2,152,918	736,154
WITH THE GOVERNMENT OF QUÉBEC:						
Financing operations for which losses are repaid by the Government of Québec	1,037,571	2,070,293	637,625	1,002,521	1,961,413	736,154

26. FINANCING AND INVESTMENT COMMITMENTS

The financing commitments of the Corporation, entered into in the normal course of business, are presented in the table below and are grouped into two categories. The first includes financing agreements authorized by the Corporation that have not yet been accepted by clients. The second includes financing agreements accepted by clients, i.e. amounts not disbursed on loans, shares and units, amounts for which disbursement has not been authorized for financial contributions and amounts that have not yet been used for guarantees. In addition, under agreements with certain partners, the Corporation has undertaken to invest, through units of limited partnerships, in the FIER Regions, the mutual funds of FIER Partners and the Support Funds.

The total value of these commitments does not necessarily represent future cash requirements, as several will expire or may be cancelled without having resulted in disbursements.

The amounts of the commitments are as follows:

	Losses not repaid and contributions not assumed by the Government of Québec	Losses repaid and contributions assumed by the Government of Québec	2007 Total	2006 Total
FINANCING COMMITMENTS				
Authorized agreements awaiting acceptance by clients				
Loans	6,038	104,640	110,678	20,114
Guarantees	8,621	13,048	21,669	13,012
Financial contributions	2,166	54,117	56,283	13,657
	16,825	171,805	188,630	46,783
Agreements accepted by clients				
Loans	7,794	403,283	411,077	326,809
Guarantees	80,635	431,617	512,252	524,274
Financial contributions	139,926	116,924	256,850	259,175
	228,355	951,824	1,180,179	1,110,258
	245,180	1,123,629	1,368,809	1,157,041
INVESTMENT COMMITMENTS				
Units of limited partnerships				
FIER Regions	–	124,342	124,342	104,752
FIER Partners, L.P.	–	85,633	85,633	88,974
Support Funds	–	8,956	8,956	11,433
	–	218,931	218,931	205,159
	245,180	1,342,560	1,587,740	1,362,200

Commitments denominated in US dollars totalled CDN$69,375 as at March 31, 2007 ($62,835 as at March 31, 2006).

27. OTHER COMMITMENTS

The Corporation has undertaken to pay fees totalling $34.9 million as at March 31, 2007 ($24.3 million as at March 31, 2006) to financial intermediaries for soliciting immigrant investors, targeting companies for referral and closing immigrant investor files.

The Corporation has further undertaken to pay financial contributions under the "Employment Integration Program for Immigrants and Visible Minorities," administered by Emploi-Québec and intended for businesses. As at March 31, 2007, the Corporation had no commitments in respect of these contributions ($1.7 million as at March 31, 2006).

28. PENSION PLANS

The employees of Investissement Québec participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM), which are inter-company defined benefit plans that include retirement and death coverage. Investissement Québec's obligations under these government plans are limited to employer contributions. Investissement Québec's contributions charged to income for the year amounted to $1.4 million ($1.4 million for the year ended March 31, 2006; $1 million for the year ended March 31, 2005).

The employer's liabilities under the supplementary pension plan consist in fully assuming benefits when beneficiaries retire. Accordingly, no contributions are paid by the employees or the employer. As at March 31, 2007, the employer's obligations amounted to $1.2 million ($0.1 million as at March 31, 2006; $0.1 million as at March 31, 2005) and appear under "Other liabilities." The Corporation charged $1.1 million to income for the year ended March 31, 2007 (nil for the years ended March 31, 2006 and 2005). The significant actuarial assumptions used by the Corporation to assess its accrued benefit obligations were as follows: the plan's expected rate of return was 5.75% and the rate of compensation increase was 3.50%.

29. SICK LEAVE AND VACATION TIME PAYABLE

	2007	2006
Balance, beginning of year	10,319	9,990
Expense for the year	3,630	3,198
Amount paid during the year	(3,062)	(2,869)
Balance, end of year	10,887	10,319

26. FINANCING AND INVESTMENT COMMITMENTS

The financing commitments of the Corporation, entered into in the normal course of business, are presented in the table below and are grouped into two categories. The first includes financing agreements authorized by the Corporation that have not yet been accepted by clients. The second includes financing agreements accepted by clients, i.e. amounts not disbursed on loans, shares and units, amounts for which disbursement has not been authorized for financial contributions and amounts that have not yet been used for guarantees. In addition, under agreements with certain partners, the Corporation has undertaken to invest, through units of limited partnerships, in the FIER-Regions, the mutual funds of FIER Partners and the Support Funds.

The total value of these commitments does not necessarily represent future cash requirements, as several will expire or may be cancelled without having resulted in disbursements.

The amounts of the commitments are as follows:

	Losses not repaid and contributions not assumed by the Government of Québec	Losses repaid and contributions assumed by the Government of Québec	2007 Total	2006 Total
FINANCING COMMITMENTS				
Authorized agreements awaiting acceptance by clients				
Loans	6,038	104,640	110,678	20,114
Guarantees	8,621	13,048	21,669	13,012
Financial contributions	2,166	54,117	56,283	13,657
	16,825	171,805	188,630	46,783
Agreements accepted by clients				
Loans	7,794	403,283	411,077	326,809
Guarantees	80,635	431,617	512,252	524,274
Financial contributions	139,926	116,924	256,850	259,175
	228,355	951,824	1,180,179	1,110,258
	245,180	1,123,629	1,368,809	1,157,041
INVESTMENT COMMITMENTS				
Units of limited partnerships				
FIER-Regions	–	124,342	124,342	104,752
FIER Partners, L.P.	–	85,633	85,633	88,974
Support Funds	–	8,956	8,956	11,433
	–	218,931	218,931	205,159
	245,180	1,342,560	1,587,740	1,362,200

Commitments denominated in US dollars totalled CDN$69,375 as at March 31, 2007 ($62,835 as at March 31, 2006).

27. OTHER COMMITMENTS

The Corporation has undertaken to pay fees totalling $34.9 million as at March 31, 2007 ($24.3 million as at March 31, 2006) to financial intermediaries for soliciting immigrant investors, targeting companies for referral and closing immigrant investor files.

The Corporation has further undertaken to pay financial contributions under the "Employment Integration Program for Immigrants and Visible Minorities," administered by Emploi-Québec and intended for businesses. As at March 31, 2007, the Corporation had no commitments in respect of these contributions ($1.7 million as at March 31, 2006).

28. PENSION PLANS

The employees of Investissement Québec participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM), which are inter-company defined benefit plans that include retirement and death coverage. Investissement Québec's obligations under these government plans are limited to employer contributions. Investissement Québec's contributions charged to income for the year amounted to $1.4 million ($1.4 million for the year ended March 31, 2006; $1 million for the year ended March 31, 2005).

The employer's liabilities under the supplementary pension plan consist in fully assuming benefits when beneficiaries retire. Accordingly, no contributions are paid by the employees or the employer. As at March 31, 2007, the employer's obligations amounted to $1.2 million ($0.1 million as at March 31, 2006; $0.1 million as at March 31, 2005) and appear under "Other liabilities." The Corporation charged $1.1 million to income for the year ended March 31, 2007 (nil for the years ended March 31, 2006 and 2005). The significant actuarial assumptions used by the Corporation to assess its accrued benefit obligations were as follows: the plan's expected rate of return was 5.75% and the rate of compensation increase was 3.50%.

29. SICK LEAVE AND VACATION TIME PAYABLE

	2007	2006
Balance, beginning of year	10,319	9,990
Expense for the year	3,630	3,198
Amount paid during the year	(3,062)	(2,869)
Balance, end of year	10,887	10,319

30. CONTINGENCIES

Under Order in Council 1393-2001 issued by the Government of Québec on November 21, 2001, 9109-3294 Québec inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 2001 for $1. Investissement Québec partially guarantees the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up costs, which it must assume, could amount to $9.9 million. However, under its incorporating act, any potential losses stemming from this contingent liability will be borne by the Government of Québec.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently pending. In the Corporation's opinion, the outcome of these proceedings will not have a significant impact on its financial position or the results of its operations.

31. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all the departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the Government of Québec or are subject to either joint control or significant common influence by the Government of Québec. The Corporation's business transactions with these related parties were carried out in the normal course of business and under usual business conditions. All of these transactions have been recorded at the exchange amount and disclosed separately in the financial statements.

32. COMPARATIVE FIGURES

Certain figures from fiscal 2005 and 2006 have been reclassified to conform to the current year presentation.

33. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	Investissement Québec non-consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassifications [1]	2007 Consolidated total	2006 Consolidated total
ASSETS							
Cash	9,188	246	2	4	–	9,440	–
Temporary investments	9,049	6,618	1,825	–	–	17,492	9,608
Investments	–	2,572,250	83,329	24	–	2,655,603	2,285,867
Loans, less accumulated provision for losses	770,827	–	–	–	–	770,827	737,395
Shares, less accumulated provision for losses	307,263	–	–	–	–	307,263	303,739
Units, less accumulated provision for losses	2,074	–	–	–	–	2,074	2,464
Accumulated provision for losses recoverable from the Government of Québec	637,625	–	–	–	–	637,625	736,154
Investments in subsidiaries, accounted for using the equity method	40,461	–	–	–	(40,461)	–	–
Advances to subsidiaries	87,531	–	–	–	(87,531)	–	–
Other assets	29,523	81,342	129	2,408	(2,574)	110,828	109,370
	1,893,541	2,660,456	85,285	2,436	(130,566)	4,511,152	4,184,597
LIABILITIES AND EQUITY							
Liabilities							
Bank overdraft	–	–	–	–	–	–	5,941
Short-term borrowings	58,000	–	–	–	–	58,000	101,900
Long-term borrowings	1,111,726	2,610,400	–	–	–	3,722,126	3,351,955
Due and accrued interest on borrowings	18,904	–	–	–	–	18,904	15,374
Advances from the parent company	–	–	87,367	164	(87,531)	–	–
Accumulated provision for losses on guarantees	172,924	–	–	–	–	172,924	229,377
Other liabilities	22,602	5,501	2,015	2,269	(2,574)	29,813	24,182
	1,384,156	2,615,901	89,382	2,433	(90,105)	4,001,767	3,728,729
Equity							
Initial equity and share capital	32,944	1	1	3	(5)	32,944	32,944
Retained earnings (deficit)	476,441	44,554	(4,098)	–	(40,456)	476,441	422,924
	509,385	44,555	(4,097)	3	(40,461)	509,385	455,868
	1,893,541	2,660,456	85,285	2,436	(130,566)	4,511,152	4,184,597
GUARANTEES, LESS THE ACCUMULATED PROVISION FOR LOSSES	2,276,569	–	–	–	–	2,276,569	2,152,918

(1) Eliminations related to balances and inter-company transactions and reclassifications.

33. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	Investissement Québec non-consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassifications [1]	2007 Consolidated total	2006 Consolidated total
ASSETS							
Cash	9,188	246	2	4	–	9,440	–
Temporary investments	9,049	6,618	1,825	–	–	17,492	9,608
Investments	–	2,572,250	83,329	24	–	2,655,603	2,285,867
Loans, less accumulated provision for losses	770,827	–	–	–	–	770,827	737,395
Shares, less accumulated provision for losses	307,263	–	–	–	–	307,263	303,739
Units, less accumulated provision for losses	2,074	–	–	–	–	2,074	2,464
Accumulated provision for losses recoverable from the Government of Québec	637,625	–	–	–	–	637,625	736,154
Investments in subsidiaries, accounted for using the equity method	40,461	–	–	–	(40,461)	–	–
Advances to subsidiaries	87,531	–	–	–	(87,531)	–	–
Other assets	29,523	81,342	129	2,408	(2,574)	110,828	109,370
	1,893,541	2,660,456	85,285	2,436	(130,566)	4,511,152	4,184,597
LIABILITIES AND EQUITY							
Liabilities							
Bank overdraft	–	–	–	–	–	–	5,941
Short-term borrowings	58,000	–	–	–	–	58,000	101,900
Long-term borrowings	1,111,726	2,610,400	–	–	–	3,722,126	3,351,955
Due and accrued interest on borrowings	18,904	–	–	–	–	18,904	15,374
Advances from the parent company	–	–	87,367	164	(87,531)	–	–
Accumulated provision for losses on guarantees	172,924	–	–	–	–	172,924	229,377
Other liabilities	22,602	5,501	2,015	2,269	(2,574)	29,813	24,182
	1,384,156	2,615,901	89,382	2,433	(90,105)	4,001,767	3,728,729
Equity							
Initial equity and share capital	32,944	1	1	3	(5)	32,944	32,944
Retained earnings (deficit)	476,441	44,554	(4,098)	–	(40,456)	476,441	422,924
	509,385	44,555	(4,097)	3	(40,461)	509,385	455,868
	1,893,541	2,660,456	85,285	2,436	(130,566)	4,511,152	4,184,597
GUARANTEES, LESS THE ACCUMULATED PROVISION FOR LOSSES	2,276,569	–	–	–	–	2,276,569	2,152,918

(1) Eliminations related to balances and inter-company transactions and reclassifications

34. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	Investissement Québec non-consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassifications [1]	2007 Consolidated total	2006 Consolidated total
INTEREST INCOME							
Interest on loans	52,686	–	–	–	–	52,686	42,710
Interest on cash and temporary investments	301	244	600	–	–	1,145	648
Interest contributions from the Government of Québec	45,095	–	–	–	–	45,095	33,480
	98,082	244	600	–	–	98,926	76,838
INTEREST EXPENSE	51,857	–	–	–	–	51,857	38,716
NET INTEREST INCOME	46,225	244	600	–	–	47,069	38,122
OTHER INCOME							
Interest on notes receivable from the Government of Québec	–	95,215	–	–	–	95,215	79,056
Guarantee fees	22,073	–	–	–	–	22,073	19,696
Risk premiums							
Stock options	2,720	–	–	–	–	2,720	3,523
Share-in-income and lump-sum premiums	9,132	–	–	–	–	9,132	4,862
Commitment fees	6,599	–	–	–	–	6,599	12,151
Fees – Related company, IQ Immigrants Investisseurs inc.	1,377	–	–	–	(1,377)	–	–
Other income	9,632	7,742	(2,608)	139	–	14,905	144,405
	51,533	102,957	(2,608)	139	(1,377)	150,644	263,693
	97,758	103,201	(2,008)	139	(1,377)	197,713	301,815
PROVISION							
Provision for losses	(4,899)	–	–	–	–	(4,899)	235,888
Provision for losses recoverable from the Government of Québec	8,253	–	–	–	–	8,253	(228,234)
	3,354	–	–	–	–	3,354	7,654
NON-INTEREST EXPENSES							
Financial contributions	17,809	49,869	–	1,857	–	69,535	62,628
Financial contributions assumed by the Government of Québec	(17,809)	–	–	(1,857)	–	(19,666)	(25,162)
Fees to financial intermediaries	–	39,545	–	–	–	39,545	32,650
Fees for the management of financial contribution files – Parent company	–	1,569	–	–	(1,569)	–	–
Administrative expenses	46,565	406	761	–	(93)	47,639	43,350
Other expenses	3,229	222	–	53	285	3,789	3,891
	49,794	91,611	761	53	(1,377)	140,842	117,357
NET INCOME BEFORE SHARE OF INCOME OF SUBSIDIARIES	44,610	11,590	(2,769)	86	–	53,517	176,804
Share of income of subsidiaries	8,907	–	–	–	(8,907)	–	–
NET INCOME	53,517	11,590	(2,769)	86	(8,907)	53,517	176,804

(1) Eliminations related to balances and inter-company transactions and reclassifications.

34. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	Investissement Québec non-consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassifications [1]	2007 Consolidated total	2006 Consolidated total
INTEREST INCOME							
Interest on loans	52,686	–	–	–	–	52,686	42,710
Interest on cash and temporary investments	301	244	600	–	–	1,145	648
Interest contributions from the Government of Québec	45,095	–	–	–	–	45,095	33,480
	98,082	244	600	–	–	98,926	76,838
INTEREST EXPENSE	51,857	–	–	–	–	51,857	38,716
NET INTEREST INCOME	46,225	244	600	–	–	47,069	38,122
OTHER INCOME							
Interest on notes receivable from the Government of Québec	–	95,215	–	–	–	95,215	79,056
Guarantee fees	22,073	–	–	–	–	22,073	19,696
Risk premiums							
Stock options	2,720	–	–	–	–	2,720	3,523
Share-in-income and lump-sum premiums	9,132	–	–	–	–	9,132	4,862
Commitment fees	6,599	–	–	–	–	6,599	12,151
Fees – Related company, IQ Immigrants Investisseurs inc.	1,377	–	–	–	(1,377)	–	–
Other income	9,632	7,742	(2,608)	139	–	14,905	144,405
	51,533	102,957	(2,608)	139	(1,377)	150,644	263,693
	97,758	103,201	(2,008)	139	(1,377)	197,713	301,815
PROVISION							
Provision for losses	(4,899)	–	–	–	–	(4,899)	235,888
Provision for losses recoverable from the Government of Québec	8,253	–	–	–	–	8,253	(228,234)
	3,354	–	–	–	–	3,354	7,654
NON-INTEREST EXPENSES							
Financial contributions	17,809	49,869	–	1,857	–	69,535	62,628
Financial contributions assumed by the Government of Québec	(17,809)	–	–	(1,857)	–	(19,666)	(25,162)
Fees to financial intermediaries	–	39,545	–	–	–	39,545	32,650
Fees for the management of financial contribution files – Parent company	–	1,569	–	–	(1,569)	–	–
Administrative expenses	46,565	406	761	–	(93)	47,639	43,350
Other expenses	3,229	222	–	53	285	3,789	3,891
	49,794	91,611	761	53	(1,377)	140,842	117,357
NET INCOME BEFORE SHARE OF INCOME OF SUBSIDIARIES	44,610	11,590	(2,769)	86	–	53,517	176,804
Share of income of subsidiaries	8,907	–	–	–	(8,907)	–	–
NET INCOME	53,517	11,590	(2,769)	86	(8,907)	53,517	176,804

(1) Eliminations related to balances and inter-company transactions and reclassifications.

INVESTISSEMENT QUÉBEC SUPPORTS BUSINESSES ALL OVER QUÉBEC

MAURICIE

LES BIÈRES DE LA NOUVELLE-FRANCE

This Québec microbrewery has set itself apart with its experimental malt house and original beers, including a gluten-free beer, the culmination of three years' research. The only beer of its kind in Canada, it is exported to the United States and France. The company recently upgraded its equipment with the financial assistance of Investissement Québec.

GASPÉSIE—ÎLES-DE-LA-MADELEINE

BOULANGERIE RÉGIONALE DES ÎLES

The Boulangerie régionale des Îles cooperative serves much more than just its archipelago; its products are distributed in the Atlantic provinces and will soon be available in Western Canada. The company called on Investissement Québec to participate in an expansion project of more than $800,000.

OUTAOUAIS

CACTUS COMMERCE

Cactus Commerce, a Microsoft product integrator specializing in e-business, is recognized as a leading developer of software and transactional servers. With Investissement Québec's interim tax credit financing, the company was able to invest more than $3 million in R&D to develop new management solutions.

ABITIBI-TÉMISCAMINGUE

LA CORPORATION MINIÈRE ALEXIS

"Prospector of the Year" for 2005, La Corporation minière Alexis turned to Investissement Québec for its interim tax credit financing program. The financing it received will allow the company to continue exploration, drilling and gold bed mining operations in the Val d'Or area.

NORD-DU-QUÉBEC

FÉDÉRATION DES COOPÉRATIVES DU NOUVEAU-QUÉBEC

The Federation is owned by 14 cooperatives in the Inuit communities of northern Québec. Selling consumer goods through these cooperatives empowers the Inuit to improve the quality of life in their communities in spite of their remoteness from suppliers. Investissement Québec's financing operations have made it possible to build or renovate stores and hotels, and promote local activities.

LAVAL

MEP TECHNOLOGIES INC.

This high-precision sheet metal manufacturer was obliged to redefine its markets a few years ago. With support from Investissement Québec's cyclical working capital fund, MEP Technologies revamped its business processes and expanded its client base, focussing on exports. Currently, 90% of sales are in the United States.

MONTÉRÉGIE

MULTI-PORTIONS

Multi-Portions produces more than 200 prepared meat products—sausages, seasoned meats, specialty cut meats and in portion sizes. It employs more than 140 people. With Investissement Québec's assistance, Multi-Portions has begun construction of a new plant, and bought a refrigerated warehouse.

SAGUENAY—LAC-SAINT-JEAN

PRODUITS GILBERT INC.

Produits Gilbert, a flagship company in Roberval, specializes in manufacturing logging and sawmill equipment, and surface groomers for snowmobile trails. With backing from the Strategic Support for Investment Program, the company targeted innovation, investing more than $10 million and creating 80 jobs.

LANAUDIÈRE

SARAMAC INC.

Saramac has produced architectural prefab concrete exterior building finishes for 30 years. It has built a solid reputation in Canada and the United States. Saramac recently obtained Investissement Québec's support to finance a contract in New York City that was vital to the company's growth.

CAPITALE-NATIONALE

SOURIS MINI INC.

Twenty years ago, Annie Bellavance was producing limited collections of children's clothes in her own home. Now, her company is a leader in children's fashion. With loan guarantees from Investissement Québec, she has expanded into Canada and the Middle East. Souris Mini has 27 boutiques, including one in Dubai.

ADDITIONAL INFORMATION

ECONOMIC IMPACT

METHODOLOGY OF ECONOMIC IMPACT ASSESSMENT

Each year Investissement Québec assesses the economic impact of the projects it finances and its portfolio.[8] The methodology used is based on simulations carried out by the Institut de la statistique du Québec (ISQ), using its intersectorial input-output model, which reproduces the basic workings of the Québec economy. The economic impact, as reflected in jobs, added value and the tax and incidental tax revenues of the Government of Québec, is presented by program. A number of validations are carried out, particularly to eliminate the double counting of companies having benefited from more than one program.

With data provided by Investissement Québec, the ISQ first assesses the economic impact of projects, i.e. the economic impact of the companies' expenditures in connection with the implementation of the projects financed by the Corporation during the year. Expansion or construction of buildings, as well as the acquisition and installation of machinery or equipment are the two main segments of the ISQ model. In the calculations, project costs are broken down by type of expenditure: construction, equipment and machinery, professional fees and working capital. The assessment excludes the projects of businesses with a precarious financial position, as well as buyer-credits, which are simulated, however, in the assessment of the Corporation's portfolio.

With the ISQ model, it is possible to assess the required workload in person-years for project completion, whose simulated value in 2006-2007 amounted to $3.9 billion. According to ISQ simulations, the financed projects should require the equivalent of 41,682 person-years of work to be carried out. Workers employed (engineers, architects, construction workers, technicians and others) will thus generate tax and incidental tax revenues, from salary withholding taxes, totalling $457.6 million for the Government of Québec.

The ISQ relies on data provided by Investissement Québec in assessing the economic impact of the Corporation's portfolio as at March 31, 2007, by simulating the effects on annual sales subsequent to the implementation of projects financed by the Corporation in previous years. The ISQ's model assesses the workload that the completion of such sales represents for client companies and their suppliers, as well as the government revenues generated by salary withholding taxes. Accordingly, for fiscal 2006-2007, client company sales totalled nearly $33.9 billion. The completion of these sales translated into a workload of 304,443 person-years and tax and incidental tax revenues of $2.8 billion for the Government of Québec over this same year.

Economic impact varies in scope from year to year based on portfolio movements (companies added or withdrawn), on one hand, and the performance of financed companies and economic conditions, on the other.

8. Including companies financed from 1988 to 2007 whose files are still administered by the Corporation. In light of the filing due date for the financial statements of the businesses, the assessments cover data for the period from July 1, 2005 to June 30, 2006.

ATTRIBUTING ECONOMIC IMPACT TO INVESTISSEMENT QUÉBEC

The Corporation does not take credit for all the tax and incidental tax revenues generated by the investment projects it finances and its clients' sales. Since its financing operations must complement those of financial institutions, the attribution model takes into account only the portion of the impact generated by companies whose financial structure exceeds the risk threshold usually tolerated by the lending institutions. For economic development tools, such as the Private Investment and Job Creation Promotion Fund (FAIRE) and Strategic Support for Investment Program (PASI) and government mandates, economic impact is attributed to the Corporation based on the probabilities that supported projects would have been discontinued without the Corporation's financing operation or relocated outside Québec.

In all cases, impact is weighted by various criteria so that Investissement Québec is credited only with projects that are likely to generate a net gain for the economy, while excluding projects that give rise only to a shift in economic activity within Québec. For fiscal 2006-2007, 33% of total revenues[9] from project implementation, or $150.5 million, was generated by projects attributable to Investissement Québec's financing operations, along with 28% of total sales-related revenues, or $762.7 million. Total revenues attributable to Investissement Québec, i.e. the aggregate revenues attributable to the Corporation's financed projects and portfolio amounted to $913.2 million.

The attribution model relies on objective assessments based on a rating system that compares a set of financial and economic parameters. The methodology and overall results have been presented on many occasions, for instance to the Association canadienne-française pour l'avancement des sciences (ACFAS) in 1997 and 1998, the Canadian Evaluation Association in 1999, the American Chamber of Commerce Research Association (ACCRA) in 2001, now known as the Council for Community and Economic Research (C2ER), and the Association de science régionale de langue française in 2002. In fact, the ACCRA bestowed an excellence award on Investissement Québec in June 2004 for its economic impact assessment methodology for the FAIRE program.

9. Includes tax and incidental tax revenues.

TOTAL ECONOMIC IMPACT

	2006-2007	2005-2006
IMPACT FROM IMPLEMENTATION OF FINANCED PROJECTS (*projects* segment)		
Value of simulated projects	$3,946.0 M	$2,712.4 M
Economic impact generated by these projects		
Jobs (workload in person-years)	41,682	25,630
Added value	$2,787.0 M	$1,874.6 M
Government of Québec revenues	$457.6 M	$284.9 M
IMPACT FROM SIMULATED SALES OF PORTFOLIO COMPANIES (*portfolio* segment)		
Value of simulated sales	$33,912.4 M	$34,332.5 M
Economic impact generated by these sales		
Jobs (workload in person-years)	304,443	281,691
Added value	$21,445.1 M	$19,624.3 M
Added value per job	$70,440	$69,666
Government of Québec revenues	$2,757.1 M	$2,465.6 M
TAX AND INCIDENTAL TAX REVENUES ATTRIBUTABLE TO INVESTISSEMENT QUÉBEC		
From implementation of financed projects	$150.5 M	$78.5 M
From sales of portfolio companies	$762.7 M	$664.6 M
Total tax and incidental tax revenues attributable to Investissement Québec	$913.2 M	$743.1 M
Costs	$69.5 M	$136.0 M
Investissement Québec's cost-benefit ratio	13.14/1	5.46/1

TOTAL ECONOMIC IMPACT

	2006-2007	2005-2006
IMPACT FROM IMPLEMENTATION OF FINANCED PROJECTS (*projects* segment)		
Value of simulated projects	$3,946.0 M	$2,712.4 M
Economic impact generated by these projects		
Jobs (workload in person-years)	41,682	25,630
Added value	$2,787.0 M	$1,874.6 M
Government of Québec revenues	$457.6 M	$284.9 M
IMPACT FROM SIMULATED SALES OF PORTFOLIO COMPANIES (*portfolio* segment)		
Value of simulated sales	$33,912.4 M	$34,332.5 M
Economic impact generated by these sales		
Jobs (workload in person-years)	304,443	281,691
Added value	$21,445.1 M	$19,624.3 M
Added value per job	$70,440	$69,666
Government of Québec revenues	$2,757.1 M	$2,465.6 M
TAX AND INCIDENTAL TAX REVENUES ATTRIBUTABLE TO INVESTISSEMENT QUÉBEC		
From implementation of financed projects	$150.5 M	$78.5 M
From sales of portfolio companies	$762.7 M	$664.6 M
Total tax and incidental tax revenues attributable to Investissement Québec	$913.2 M	$743.1 M
Costs	$69.5 M	$136.0 M
Investissement Québec's cost-benefit ratio	13.14/1	5.46/1

INPUT VALUE BY PROGRAM

The following table illustrates input, which consists of the data related to client companies and their projects that were used in simulating economic impact for 2006-2007.

Since companies with a precarious financial position and buyer-credit financing are excluded, as the latter is simulated in the portfolio, the economic impact assessment of the projects segment takes into account 91% of the value of financed projects.

The economic impact assessment of the portfolio segment is based on the sales of companies financed since 1988 with files that are still active and administered by the Corporation. The assessment included only companies whose most recent financial statements available at the time of the assessment were for fiscal years ended from July 1, 2005 to June 30, 2006. Consequently, this year's analysis covers an 89% sample of the companies in the Corporation's portfolio.

INPUT VALUE, 2006-2007

	Projects		Portfolio		
				Authorized financing	
Program or Program Segment	Simulated value ($M)	Sample size [2]	Sales ($M)	Total ($M)	Sample ($M)
COMPLEMENTARY FINANCING					
SMB FINANCIAL					
Production and alliance					
Investment	206.4	99%	2,388.5	231.3	209.2
Consolidation	16.4	98%	842.3	30.3	29.3
Tourism	9.9	100%	73.4	22.9	19.4
Research and development	322.6	94%	312.5	44.5	41.4
Exports	175.2	88%	2,332.1	171.3	158.8
Working capital					
Growth	27.5	97%	536.1	27.1	26.5
Ad hoc 1	n/a	n/a	25.9	1.9	1.6
Ad hoc 3	n/a	n/a	418.8	25.1	25.0
Turnaround	2.2	100%	77.8	5.7	5.7
Succession	62.8	99%	167.1	18.0	15.7
Experimentation measures	12.5	69%	137.3	14.2	14.0
SPECIFIC PROGRAMS					
Cooperatives	25.3	94%	897.7	93.9	90.1
NPOs	24.5	98%	466.0	99.3	95.3
SMB Spark	n/a	n/a	158.0	13.6	12.3
ECONOMIC DEVELOPMENT TOOLS					
Biolevier	26.8	100%	36.3	91.5	83.5
PASI	1,733.8	100%	5,107.6	141.0	123.2
FAIRE	n/a	n/a	18,075.5	1,287.0	1,259.8
Government mandates	570	100%	2,254.4	2,294.6	2,279.5
Immigrant Investor	615.9	97%	8,803.5	206.4	179.0
PSIF	114.2	93%	n/a	n/a	n/a
TOTAL [1]	3,946.0	91%	33,912.4	4,819.6	4,669.3

(1) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns in this table do not represent the total amounts accounted for.

(2) The sample size represents the portion of the project's simulated value in relation to the total value of authorized projects.

ECONOMIC IMPACT BY PROGRAM

This section presents economic impact in terms of jobs, added value, and the tax and incidental tax revenues of the Government of Québec.

JOBS

The data in the table below show the economic impact of Investissement Québec's activities in terms of jobs, i.e. the equivalent workload in person-years required to implement the projects financed in 2006-2007 by the Corporation and to complete sales of portfolio companies for the same period.

JOBS[1] BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

	Projects			Portfolio		
Program or Program Segment	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
COMPLEMENTARY FINANCING						
SMB FINANCIAL						
Production and alliance						
Investment	1,259	652	1,911	12,289	7,584	19,873
Consolidation	87	59	146	5,143	1,957	7,100
Tourism	74	33	107	1,315	235	1,550
Research and development	2,859	1,345	4,204	2,029	921	2,950
Exports	1,188	530	1,718	13,002	7,471	20,473
Working capital						
Growth	168	83	251	2,921	2,060	4,981
Ad-hoc 1	n/a	n/a	n/a	115	83	198
Ad-hoc 3	n/a	n/a	n/a	2,231	1,644	3,875
Turnaround	14	6	20	369	195	564
Succession	288	283	571	931	470	1,401
Experimentation measures	65	31	96	1,031	333	1,364
SPECIFIC PROGRAMS						
Cooperatives	169	95	264	9,598	3,160	12,758
NPOs	233	84	317	31,635	3,353	34,988
SMB Spark	n/a	n/a	n/a	1,482	633	2,115
ECONOMIC DEVELOPMENT TOOLS						
Biolevier	281	117	398	416	148	564
PASI	12,543	6,032	18,575	20,883	12,712	33,595
FAIRE	n/a	n/a	n/a	75,686	46,961	122,647
Government mandates	4,059	2,350	6,409	6,054	4,440	10,494
Immigrant Investor	3,779	1,975	5,754	49,211	27,621	76,832
PSIF	581	360	941	n/a	n/a	n/a
TOTAL[2]	**27,647**	**14,035**	**41,682**	**203,536**	**100,907**	**304,443**

Source: © Government of Québec, Investissement Québec (2007), compiled using the Québec Intersectorial Input Output Model, property of the Institut de la statistique du Québec.

(1) Workload, in person-years, required to complete sales by client companies and their suppliers.

(2) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns in this table do not represent the total amounts accounted for.

INPUT VALUE, 2006-2007

	Projects		Portfolio		
				Authorized financing	
Program or Program Segment	Simulated value ($M)	Sample size [2]	Sales ($M)	Total ($M)	Sample ($M)
COMPLEMENTARY FINANCING					
SMB FINANCIAL					
Production and alliance					
Investment	206.4	99%	2,388.5	231.3	209.2
Consolidation	16.4	98%	842.3	30.3	29.3
Tourism	9.9	100%	73.4	22.9	19.4
Research and development	322.6	94%	312.5	44.5	41.4
Exports	175.2	88%	2,332.1	171.3	158.8
Working capital					
Growth	27.5	97%	536.1	27.1	26.5
Ad-hoc 1	n/a	n/a	25.9	1.9	1.6
Ad-hoc 3	n/a	n/a	418.8	25.1	25.0
Turnaround	2.2	100%	77.8	5.7	5.7
Succession	62.8	99%	167.1	18.0	15.7
Experimentation measures	12.5	69%	137.3	14.2	14.0
SPECIFIC PROGRAMS					
Cooperatives	25.3	94%	897.7	93.9	90.1
NPOs	24.5	98%	466.0	99.3	95.3
SMB Spark	n/a	n/a	158.0	13.6	12.3
ECONOMIC DEVELOPMENT TOOLS					
Biolevier	26.8	100%	36.3	91.5	83.5
PASI	1,733.8	100%	5,107.6	141.0	123.2
FAIRE	n/a	n/a	18,075.5	1,287.0	1,259.8
Government mandates	570	100%	2,254.4	2,294.6	2,279.5
Immigrant Investor	615.9	97%	8,803.5	206.4	179.0
PSIF	114.2	93%	n/a	n/a	n/a
TOTAL [1]	**3,946.0**	**91%**	33,912.4	4,819.6	4,669.3

(1) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns in this table do not represent the total amounts accounted for.

(2) The sample size represents the portion of the project's simulated value in relation to the total value of authorized projects.

ECONOMIC IMPACT BY PROGRAM

This section presents economic impact in terms of jobs, added value, and the tax and incidental tax revenues of the Government of Québec.

JOBS

The data in the table below show the economic impact of Investissement Québec's activities in terms of jobs, i.e. the equivalent workload in person-years required to implement the projects financed in 2006-2007 by the Corporation and to complete sales of portfolio companies for the same period.

JOBS[1] BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

	Projects			Portfolio		
Program or Program Segment	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
COMPLEMENTARY FINANCING						
SMB FINANCIAL						
Production and alliance						
Investment	1,259	652	1,911	12,289	7,584	19,873
Consolidation	87	59	146	5,143	1,957	7,100
Tourism	74	33	107	1,315	235	1,550
Research and development	2,859	1,345	4,204	2,029	921	2,950
Exports	1,188	530	1,718	13,002	7,471	20,473
Working capital						
Growth	168	83	251	2,921	2,060	4,981
Ad-hoc 1	n/a	n/a	n/a	115	83	198
Ad-hoc 3	n/a	n/a	n/a	2,231	1,644	3,875
Turnaround	14	6	20	369	195	564
Succession	288	283	571	931	470	1,401
Experimentation measures	65	31	96	1,031	333	1,364
SPECIFIC PROGRAMS						
Cooperatives	169	95	264	9,598	3,160	12,758
NPOs	233	84	317	31,635	3,353	34,988
SMB Spark	n/a	n/a	n/a	1,482	633	2,115
ECONOMIC DEVELOPMENT TOOLS						
Biolevier	281	117	398	416	148	564
PASI	12,543	6,032	18,575	20,883	12,712	33,595
FAIRE	n/a	n/a	n/a	75,686	46,961	122,647
Government mandates	4,059	2,350	6,409	6,054	4,440	10,494
Immigrant Investor	3,779	1,975	5,754	49,211	27,621	76,832
PSIF	581	360	941	n/a	n/a	n/a
TOTAL [2]	27,647	14,035	41,682	203,536	100,907	304,443

Source: © Government of Québec, Investissement Québec (2007), compiled using the Québec Intersectorial Input-Output Model, property of the Institut de la statistique du Québec.

(1) Workload, in person-years, required to complete sales by client companies and their suppliers.

(2) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns in this table do not represent the total amounts accounted for.

ADDED VALUE

Added value represents total compensation in respect of inputs, namely salaries and wages before taxes, net income of companies and other gross income before taxes. A company generates added value when it makes investments or transforms raw materials, goods or components with Québec content. Added value is also calculated based on the sales of the company and its suppliers.

ADDED VALUE BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

Program or Program Segment	Projects ($M)	Portfolio ($M)	Portfolio productivity (added value per job) ($)
COMPLEMENTARY FINANCING			
SMB FINANCIAL			
Production and alliance			
Investment	141.5	1,458.8	73,407
Consolidation	11.6	487.7	68,678
Tourism	7.2	60.4	38,964
Research and development	255.3	192.0	65,064
Experts	137.8	1,408.7	68,806
Working capital			
Growth	17.9	331.0	66,458
Ad-hoc 1	n/a	18.1	91,803
Ad-hoc 3	n/a	246.8	63,682
Turnaround	1.2	45.4	80,383
Succession	47.3	99.3	70,861
Experimentation measures	7.7	90.7	66,465
SPECIFIC PROGRAMS			
Cooperatives	18.2	673.3	52,777
NPOs	18.5	998.7	28,545
SMB Spark	n/a	138.6	65,540
ECONOMIC DEVELOPMENT TOOLS			
Biolevier	21.9	29.1	51,571
PASI	1,209.9	2,519.8	75,005
FAIRE	n/a	10,344.7	84,345
Government mandates	397.4	1,151.7	109,744
Immigrant Investor	414.0	5,362.5	69,794
PSIF	79.6	n/a	n/a
TOTAL [1]	**2,787.0**	**21,445.1**	**70,440.0**

Source: © Government of Québec, Investissement Québec (2007), compiled using the Québec Intersectorial Input-Output Model, property of the Institut de la statistique du Québec.

(1) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns in this table do not represent the total amounts accounted for.

GOVERNMENT OF QUÉBEC REVENUES

The economic impact on tax and incidental tax revenues is detailed in the following table. It consists of taxes on salaries and wages and contributions paid to the Commission de la santé et de la sécurité du travail, the Fonds des services de santé and the Régie des rentes du Québec. The assessment takes into account only Government of Québec revenues and excludes those from other levels of government and corporate taxes.

GOVERNMENT OF QUÉBEC REVENUES BY PROGRAM OR PROGRAM SEGMENT, 2006-2007

	Tax revenues ($M)		Incidental tax revenues ($M)		Total ($M)
Program or Program Segment	**Projects**	**Portfolio**	**Projects**	**Portfolio**	
COMPLEMENTARY FINANCING					
SMB FINANCIAL					
Production and alliance					
Investment	8.9	75.3	13.6	118.9	216.7
Consolidation	0.8	25.0	0.8	37.9	64.5
Tourism	0.4	2.0	0.8	4.8	8.0
Research and development	17.8	13.6	21.6	17.0	70.0
Exports	8.2	80.1	9.8	120.6	218.7
Working capital					
Growth	1.1	18.6	1.4	28.3	49.4
Ad hoc 1	n/a	0.9	n/a	1.1	2.0
Ad hoc 3	n/a	14.3	n/a	21.2	35.5
Turnaround	0.1	2.6	0.1	3.3	6.1
Succession	3.6	5.1	3.1	8.3	20.1
Experimentation measures	0.5	5.0	0.7	7.0	13.2
SPECIFIC PROGRAMS					
Cooperatives	1.2	35.7	1.7	57.7	96.3
NPOs	1.1	47.2	1.9	89.8	140.0
SMB Spark	n/a	8.8	n/a	11.6	20.4
ECONOMIC DEVELOPMENT TOOLS					
Biolevier	1.5	1.8	1.8	2.4	7.5
PASI	83.1	148.2	110.9	201.0	543.2
FAIRE	n/a	515.8	n/a	724.7	1,240.5
Government mandates	25.2	52.0	53.6	60.7	191.5
Immigrant Investor	27.3	277.8	43.6	442.6	791.3
PSIF	4.7	n/a	6.7	n/a	11.4
TOTAL (1)	**185.5**	**1,115.2**	**272.1**	**1,641.9**	**3,214.7**

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FINANCIAL PRODUCTS AND TAX MEASURES MANAGED BY INVESTISSEMENT QUÉBEC

SMB FINANCIAL

Loan or loan guarantee program serving to help finance investment, innovation, strategic alliance, export or property transfer projects carried out by small and medium-sized businesses in the manufacturing, new economy and tourism sectors. This program also allows companies in need of liquidity to temporarily finance tax credits to which they are entitled under prevailing tax measures.

PROGRAM TO PROMOTE FINANCING OF GROUP ENTREPRENEURSHIP

Program to promote the creation, maintenance and development of enterprises in the social economy by means of financial assistance for non-profit organizations or cooperative enterprises or their subsidiaries.

PROGRAM TO PROMOTE THE CAPITALIZATION OF SOCIAL ECONOMY ENTERPRISES

Program to support the capitalization of non-profit organizations or cooperative enterprises.

STRATEGIC SUPPORT FOR INVESTMENT PROGRAM (PASI)

Financial support program designed to support developmental or strategic investment projects as well as product development in Québec with a view to increasing productivity and creating jobs. It allows companies to benefit from a repayable or non-repayable financial contribution or to obtain a loan guarantee to implement their projects.

SUPPORT FOR THE FOREST INDUSTRY PROGRAM (PSIF)

Program designed to support consolidation of, investment in and modernization of forest sector companies, i.e. forest management (harvesting and silvicultural activities), pulp and paper, and wood processing companies.

IMMIGRANT INVESTOR PROGRAM–FOR BUSINESS ASSISTANCE

Program to foster economic development by reinvesting into Québec companies some of the income generated by investments entrusted by immigrant investors to IQ Immigrants Investisseurs inc., a subsidiary of Investissement Québec.

BUYER-CREDIT

Loan guarantee specifically designed to support the sale of goods by Québec companies to foreign entities.

TAX MEASURES

Assessment of business eligibility applications and production of annual eligibility certificates for refundable tax credits.

REGIONAL ECONOMIC INTERVENTION FUND (FIER)

Fund designed to help companies obtain financing during the start-up and development stages. It also supports the creation of sector-based funds and the implementation of development projects, mainly in the regions.

CHANGES DURING THE YEAR

CHANGES TO FINANCIAL PRODUCTS AND TAX MEASURES

In October 2006, Investissement Québec launched the Support for the Forest Industry Program (PSIF), which finances investment projects of companies that have paid countervailing and anti-dumping duties, and in the case of SMBs, investment, consolidation and restructuring projects. The PSIF, with a total budget of $425 million, finances two types of projects: working capital and consolidation financing projects ($150 million) as well as investment and asset acquisition projects ($275 million).

Several changes have also been made to tax measures administered by the Corporation. In its Budget Speech of March 23, 2006, the Government excluded installation activities incidental to manufacturing or processing activities from eligible activities in respect of various refundable tax credits in certain regions (resource regions, Gaspésie and certain maritime regions of Québec and Saguenay's Aluminum Valley) to lessen the impact of these credits on the central regions.

In December 2006, the territorial exclusivity of the Gaspésie–Îles-de-la-Madeleine region and the Matane RCM regarding the manufacturing of wind-power generators and their main components was postponed to apply as of 2006 rather than 2005.

In addition, the business continuation rules governing eligibility for refundable tax credits for the Gaspésie region and certain maritime regions of Québec, processing activities in the resource regions, e-business activities and innovation centres have been amended: in the first two cases, these rules are now in line with the reality of seasonal businesses in connection with a transfer of operations between associated corporations; in the case of the two other credits, the rules have been harmonized with the continuation rules for the other refundable tax credits.

Adjustments have been made to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone. As a result, as of the March 20, 2007 Budget Speech, a corporation that has obtained this tax credit will be able to keep it even if the strategic building is not at least 75% used by one or more corporations holding an eligibility certificate.

Finally, in its March 20, 2007 Budget Speech, the Government announced it had set up a task force to analyze the impact of the abolishment of tax measures for the resource regions (2009) and for new economy businesses (between 2010 to 2013).

CODE OF ETHICS OF THE BOARD OF DIRECTORS

Pursuant to Order in Council 824-98 concerning the ethics of public directors adopted by the government on June 17, 1998, the members of the Board of Directors of Investissement Québec adopted a Code of Ethics during their meeting of September 26, 2000. The code contains principles that reflect the Corporation's mission, its core values and general management principles.

GENERAL PROVISIONS

1. This code applies to any person appointed to the Board of Directors of Investissement Québec.

2. The members adhere and contribute to the fulfillment of Investissement Québec's mission, as described in section 25 of the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1), namely:

   "The mission of the [Corporation] is to facilitate the growth of investment in Québec and thus contribute to the economic development of Québec and the creation of employment opportunities.

   The [Corporation] shall centralize and consolidate the actions of the State to seek out, promote and support investment, and shall become the main channel for communications with the enterprises concerned.

   The [Corporation] shall strive to stimulate domestic investment and to attract investors from outside Québec. It shall promote Québec among investors as a propitious location for investment, offer investors orientation services to guide them in their dealings with the Government, and provide them [...] with financial and technical support.

   The [Corporation] shall participate in the growth of enterprises, in particular by facilitating research and development and export activities.

   The [Corporation] shall also work to retain current investment in Québec by providing [...] support [...] to enterprises established in Québec that show particular dynamism or potential."

3. The members adhere to the values and general management principles underlying Investissement Québec's activities: client focus, proactive approach, competence, commitment, integrity, efficiency and effectiveness.

RULES OF ETHICS

4. Any member of the Board of Directors who notices, during a Board of Directors or Executive Committee meeting, that he is in conflict of interest must disclose the interest in writing to the Chair of the Board, abstain from participating in any deliberation or decision relating to the subject of the conflict, and withdraw for the duration of the deliberations and vote relating to this matter.

5. A member shall avoid putting himself in a position where his personal interest conflicts with the obligations of his duties.

6. Any member who provides, or whose partner provides, professional services for a fee or other consideration to a company, shall abstain, throughout the period in which the services are provided, from communicating with the personnel of Investissement Québec in respect of any financial transaction involving this company and the Corporation. This prohibition is applicable during the year following the termination of the member's mandate.

7. A member may not be designated an Investissement Québec managing director for a company.

8. Members shall exercise discretion regarding any information obtained as part of or while exercising their duties and shall at all times respect the confidential nature of such information.

   This obligation shall not prevent a member representing or related to a particular interest group from consulting or reporting to the group, unless the information is confidential under the law or the Board of Directors requires that such information be kept confidential.

9. A member shall be in conflict of interest when he, his heirs or spouse have, to his knowledge, (i) an interest in a client company of Investissement Québec that is a closed company within the meaning of the *Securities Act* (R.S.Q., V-1.1), (ii) an interest of ten percent or more in the voting share capital of a client company of Investissement Québec that is not a closed company within the meaning of the *Securities Act* (R.S.Q., V-1.1).

10. A member shall be in conflict when the Board is seized of a matter concerning his company, his competitor, the company of a client or that of a relation, or a matter of a company that has received a letter of intent or a letter of offer from an entity of which he is a director or an employee.

11. A member shall not accept a gift or other benefits, unless they are customary or of modest value. Any other gift or benefit received shall be returned to the donor or remitted to Investissement Québec.

12. A member shall not, directly or indirectly, grant, solicit or accept a favour or undue benefit, for himself or a third party, from a company that has business relations with Investissement Québec.

13. A member shall, in making his decisions, avoid being influenced by job offers.

14. A member who no longer holds his position shall behave in a manner so as not to take undue advantage of his former position at Investissement Québec.

15. A member who no longer holds his position shall not disclose any confidential information he has obtained or give advice to anyone based on information that is not available to the public concerning Investissement Québec. This prohibition is applicable during the year following the termination of his mandate.

16. An Ethics Committee has been set up comprising three members appointed by the Board of Directors of Investissement Québec. This Committee meets at the request of the Chair of the Board of Investissement Québec to examine all matters referred to it by the Board of Directors and, where applicable, submits its report to the Board.

STATEMENTS RELATED TO VARIOUS REGULATIONS

LANGUAGE POLICY

The Corporation applies the language policy adopted by the Board of Directors on September 25, 2001 based on the *Charter of the French Language*, the government's language policy, the policy concerning government contracts and the policy regarding the use of French in information technologies.

COMPENSATION OF OFFICERS

In accordance with the *Act respecting the governance of state-owned enterprises and amending various legislative provisions*, the Corporation represents that the annual salary of the five highest paid officers ranges from $150,000 to $220,000. The officers benefit from a pension plan, as well as a supplementary pension plan. They can also benefit from a compensation incentive ranging from 8% to 15% where goals have been met or exceeded.

LIST OF INVESTISSEMENT QUÉBEC SERVICE OUTLETS

QUÉBEC

ANJOU
7100, rue Jean-Talon Est, Suite 1250
Montréal (Québec) H1M 3S3
Telephone: 514-873-9292

CHANDLER
500, rue Daigneault, Suite 10 A
P.O. Box 156
Chandler (Québec) G0C 1K0
Telephone: 418-689-2549

DRUMMONDVILLE
1406, rue Michaud
Drummondville (Québec) J2C 7V3
Telephone: 819-478-9675

GATINEAU
4, rue Taschereau, Suite 390
Gatineau (Québec) J8Y 2V5
Telephone: 819-772-3211

LAVAL
3030, boul. Le Carrefour, Suite 801
Laval (Québec) H7T 2P5
Telephone: 450-680-6161

LONGUEUIL
1010, rue Sérigny, Suite 310
Longueuil (Québec) J4K 5G7
Telephone: 450-928-5688

MONTRÉAL
393, rue Saint-Jacques, Suite 500
Montréal (Québec) H2Y 1N9
Telephone: 514-873-4375

QUÉBEC CITY
1200, route de l'Église, Suite 500
Québec City (Québec) G1V 5A3
Telephone: 418-643-5172

RIMOUSKI
70, rue Saint-Germain Est, Suite 100
Rimouski (Québec) G5L 7J9
Telephone: 418-727-3582

ROUYN-NORANDA
170, rue Principale, Suite 202
Rouyn-Noranda (Québec) J9X 4P7
Telephone: 819-763-3300

SAGUENAY
3950, boul. Harvey, 2nd Floor
Saguenay (Québec) G7X 8L6
Telephone: 418-695-7865

SAINT-GEORGES
11535, 1re Avenue, Suite 303
Saint-Georges (Québec) G5Y 7H5
Telephone: 418-222-5768

SAINT-LAURENT
3300, boul. Côte-Vertu, Suite 210
Saint-Laurent (Québec) H4R 2B7
Telephone: 514-873-1401

SEPT-ÎLES
454, avenue Arnaud
Sept-Îles (Québec) G4R 3A9
Telephone: 418-964-8160

SHERBROOKE
200, rue Belvédère Nord, Suite 3.10
Sherbrooke (Québec) J1H 4A9
Telephone: 819-820-3224

TROIS-RIVIÈRES
100, rue Laviolette, 3rd Floor
Trois-Rivières (Québec) G9A 5S9
Telephone: 819-371-6012

INTERNATIONAL

BEIJING
Room C712-713, Lufthansa Center
50 Liangmaqiao Road, Chaoyang District
Beijing 100016, China
Telephone: +86 10 6465 1520, ext. 129

CHICAGO
444 N. Michigan Avenue, Suite 1900
Chicago, IL 60611-3977, U.S.A.
Telephone: 312-645-0398

LONDON
59 Pall Mall
London SW1Y 5JH, U.K.
Telephone: +44 20 7766-5931

LOS ANGELES
10940 Wilshire Boulevard, Suite 720
Los Angeles, CA 90024, U.S.A.
Telephone: 310-209-3332

MUNICH
Dienerstrasse 20
Munich D-80331, Germany
Telephone: +49 89 2420 8760

NEW YORK
Rockefeller Center
One Rockefeller Plaza, 26th Floor
New York, NY 10020-2102, U.S.A.
Telephone: 212-843-0976

PARIS
66, rue Pergolèse
Paris 75116, France
Telephone: +33 (0)1 40 67 85 26

TOKYO
Délégation générale du Québec
Shiroyama JT Trust Tower
32nd Floor, 4-3-1 Toranomon,
Minato-ku Tokyo 105-6032, Japan
Telephone: +81 3 5733 4588

Toll-free: 1-866-870-0437

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Note: In this document, the names of the government departments are those in effect as at March 31, 2007.

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INVESTISSEMENT QUÉBEC

1200, route de l'Église
Suite 500
Québec City (Québec)
G1V 5A3

393, rue Saint-Jacques
Suite 500
Montréal (Québec)
H2Y 1N9

1-866-870-0437
www.investquebec.com

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